GERDAU S.A.
Form 20-F
March 31, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Fiscal Year Ended December 31, 2014**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14878

GERDAU S.A.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant s name into English)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Av. Farrapos 1811
Porto Alegre, Rio Grande do Sul - Brazil CEP 90220-005
(Address of principal executive offices) (Zip code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange in which registered
Preferred Shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The total number of issued shares of each class of stock of GERDAU S.A. as of December 31, 2014 was:

573,627,483 Common Shares, no par value per share
1,146,031,245 Preferred Shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

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INTRODUCTION

Unless otherwise indicated, all references herein to:

(i) the Company , Gerdau , we or us are references to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil (Brazil) and its consolidated subsidiaries;

(ii) Açominas is a reference to Aço Minas Gerais S.A. Açominas prior to November 2003 whose business was to operate the Ouro Branco steel mill. In November 2003 the company underwent a corporate reorganization, receiving all of Gerdau s Brazilian operating assets and liabilities and being renamed Gerdau Açominas S.A.;

(iii) Gerdau Açominas is a reference to Gerdau Açominas S.A. after November 2003 and to Açominas before such date. In July 2005, certain assets and liabilities of Gerdau Açominas were spun-off to four other newly created entities: Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau América do Sul Participações. As a result of such spin-off, as from July 2005, the activities of Gerdau Açominas only comprise the operation of the Açominas steel mill;

(iv) Preferred Shares and Common Shares refer to the Company s authorized and outstanding preferred stock and common stock, designated as *ações preferenciais* and *ações ordinárias*, respectively, all without par value. All references herein to the *real* , *reais* or *R$* are to the Brazilian *real*, the official currency of Brazil. All references to (i) U.S. dollars , dollars , U.S.$ or $ are to the official currency of the United States, (ii) Euro or are to the official currency of members of the European Union, (iii) billions are to thousands of millions, (iv) km are to kilometers, and (vi) tonnes are to metric tonnes;

(v) Installed capacity means the annual projected capacity for a particular facility (excluding the portion that is not attributable to our participation in a facility owned by a joint venture), calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance;

(vi) Tonne means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds;

(vii) Consolidated shipments means the combined volumes shipped from all our operations in Brazil, Latin America, North America and Europe, excluding our joint venture and associate companies;

(viii) Worldsteel means World Steel Association, IABr means Brazilian Steel Institute (Instituto Aço Brasil) and AISI means American Iron and Steel Institute;

(ix) CPI means consumer price index, CDI means Interbanking Deposit Rates (Certificados de Depósito Interfinanceiro), IGP-M means Consumer Prices Index (Índice Geral de Preços do Mercado), measured by FGV (Fundação Getulio Vargas), LIBOR means London Interbank Offered Rate, GDP means Gross Domestic Product;

(x) Brazil BO means Brazil Business Operation, North America BO means North America Business Operation, Latin America BO means Latin America Business Operation, Specialty Steel BO means Specialty Steel Business Operation and Iron Ore BO means Iron Ore Business Operation.

(xi) proven or probable mineral reserves has the meaning defined by SEC in Industry Guide 7.

The Company has prepared the consolidated financial statements included herein in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The following investments are accounted for following the equity method: Bradley Steel Processor and MRM Guide Rail, all in North America, of which Gerdau Ameristeel holds 50% of the total capital, the investment in Armacero Industrial y Comercial Limitada, in Chile, in which the Company holds a 50% stake, the investment in the holding company Gerdau Metaldom Corp., in which the Company holds a 45% stake, in the Dominican Republic, the investment in the holding company Corsa Controladora, S.A. de C.V., in which the Company holds a 49% stake, which in turn holds the capital stock of Aceros Corsa S.A. de C.V., in Mexico, the investment in the holding company Corporacion Centroamericana del Acero S.A., in which the Company holds a 30% stake, which in turn holds the capital stock of Aceros de Guatemala S.A., in Guatemala, the investment in Gerdau Corsa S.A.P.I. de C.V., in Mexico, in which the Company holds a 50% stake and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51.82% stake.

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Unless otherwise indicated, all information in this Annual Report is stated as of December 31, 2014. Subsequent developments are discussed in Item 8.B - Financial Information - Significant Changes.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to our future prospects, developments and business strategies.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

It is possible that our future performance may differ materially from our current assessments due to a number of factors, including the following:

- general economic, political and business conditions in our markets, both in Brazil and abroad, including demand and prices for steel products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;
- our ability to obtain financing on satisfactory terms;
- prices and availability of raw materials;
- changes in international trade;
- changes in laws and regulations;

- electric energy shortages and government responses to them;
- the performance of the Brazilian and the global steel industries and markets;
- global, national and regional competition in the steel market;
- protectionist measures imposed by steel-importing countries; and
- other factors identified or discussed under Risk Factors.

Our forward-looking statements are not guarantees of future performance, and actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable, as the Company is filing this Form 20-F as an annual report.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable, as the Company is filing this Form 20-F as an annual report.

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ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected financial information for the Company included in the following tables should be read in conjunction with, and is qualified in its entirety by, the IFRS financial statements of the Company and Operating and Financial Review and Prospects appearing elsewhere in this Annual Report. The consolidated financial data of the Company as of and for each of the years ended on December 31, 2014, 2013, 2012, 2011 and 2010 are derived from the financial statements prepared in accordance with IFRS and presented in Brazilian Reais.

IFRS Summary Financial and Operating Data

	(Expressed in thousands of Brazilian Reais - R$ except quantity of shares and amounts per share)				
	2014	**2013**	**2012**	**2011**	**2010**
NET SALES	42,546,339	39,863,037	37,981,668	35,406,780	31,393,209
Cost of sales	(37,406,328)	(34,728,460)	(33,234,102)	(30,298,232)	(25,873,476)
GROSS PROFIT	5,140,011	5,134,577	4,747,566	5,108,548	5,519,733
Selling expenses	(691,021)	(658,862)	(587,369)	(603,747)	(551,547)
General and administrative expenses	(2,036,926)	(1,953,014)	(1,884,306)	(1,797,937)	(1,805,914)
(Impairment) Reversal of impairment of assets	(339,374)				336,346
Gains in joint-venture operations	636,528				
Other operating income	238,435	318,256	244,414	195,015	207,320
Other operating expenses	(150,542)	(140,535)	(180,453)	(85,533)	(100,840)
Equity in earnings (losses) of unconsolidated companies	101,875	54,001	8,353	62,662	39,454
INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	2,898,986	2,754,423	2,348,205	2,879,008	3,644,552
Financial income	276,249	292,910	316,611	455,802	295,563
Financial expenses	(1,397,375)	(1,053,385)	(952,679)	(970,457)	(1,097,633)
Exchange variations, net	(476,367)	(544,156)	(134,128)	51,757	104,364
Gains and losses on financial instruments, net	36,491	2,854	(18,547)	(65,438)	12,392
INCOME BEFORE TAXES	1,337,984	1,452,646	1,559,462	2,350,672	2,959,238
Current	(571,926)	(318,422)	(316,271)	(519,843)	(642,306)
Deferred	722,315	559,478	253,049	266,747	140,447
Income and social contribution taxes	150,389	241,056	(63,222)	(253,096)	(501,859)
NET INCOME	1,488,373	1,693,702	1,496,240	2,097,576	2,457,379
ATRIBUTABLE TO:					
Owners of the parent	1,402,873	1,583,731	1,425,633	2,005,727	2,142,488

Non-controlling interests	85,500	109,971	70,607	91,849	314,891
	1,488,373	1,693,702	1,496,240	2,097,576	2,457,379
Basic earnings per share in R$					
Common	0.82	0.93	0.84	1.22	1.50
Preferred	0.82	0.93	0.84	1.22	1.50
Diluted earnings per share in R$					
Common	0.82	0.93	0.84	1.22	1.50
Preferred	0.82	0.93	0.84	1.22	1.50
Cash dividends declared per share in R$					
Common	0.25	0.28	0.24	0.35	0.44
Preferred	0.25	0.28	0.24	0.35	0.44
Weighted average Common Shares outstanding during the year (1)	571,929,945	571,929,945	571,929,945	550,305,197	494,888,956
Weighted average Preferred Shares outstanding during the year (1)	1,132,483,383	1,129,184,775	1,130,398,618	1,092,338,207	930,454,530
Number of Common Shares outstanding at year end (2)	573,627,483	573,627,483	573,627,483	573,627,483	505,600,573
Number of Preferred Shares outstanding at year end (2)	1,146,031,245	1,146,031,245	1,146,031,245	1,146,031,245	1,011,201,145

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(1) The information on the numbers of shares presented above corresponds to the weighted average quantity during each year.

(2) The information on the numbers of shares presented above corresponds to the shares at the end of the year.

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	On December 31,				
	2014	2013	2012	2011	2010
	(Expressed in thousands of Brazilian Reais - R$)				
Balance sheet selected information					
Cash and cash equivalents	3,049,971	2,099,224	1,437,235	1,476,599	1,061,034
Short-term investments (1)	2,798,834	2,123,168	1,059,605	3,101,649	1,115,461
Current assets	20,682,739	18,177,222	16,410,397	17,319,149	12,945,944
Current liabilities	7,772,796	7,236,630	7,823,182	6,777,001	5,021,900
Net working capital (2)	12,909,943	10,940,592	8,587,215	10,542,148	7,924,044
Property, plant and equipment, net	22,131,789	21,419,074	19,690,181	17,295,071	16,171,560
Net assets (3)	33,254,534	32,020,757	28,797,917	26,519,803	20,147,615
Total assets	63,042,330	58,215,040	53,093,158	49,981,794	42,891,260
Short-term debt (including Current Portion of Long-Term Debt)	2,037,869	1,810,783	2,324,374	1,715,305	1,577,968
Long-term debt, less current portion	17,148,580	14,481,497	11,725,868	11,182,290	12,360,056
Debentures - short term		27,584	257,979	41,688	115,069
Debentures - long term	335,036	386,911	360,334	744,245	616,902
Equity	33,254,534	32,020,757	28,797,917	26,519,803	20,147,615
Capital	19,249,181	19,249,181	19,249,181	19,249,181	15,651,352

(1) Includes held for trading and available for sale.

(2) Total current assets less total current liabilities.

(3) Total assets less total current liabilities and less total non-current liabilities.

Exchange rates between the United States Dollar and Brazilian *Reais*

The following table presents the exchange rates, according to the Brazilian Central Bank, for the periods indicated between the United States dollar and the Brazilian *real* which is the currency in which we prepare our financial statements included in this Annual Report on Form 20-F.

Exchange rates from U.S. dollars to Brazilian reais

Period	Period-end	Average	High	Low
March-2015 (through March 26)	3.1915	3.1250	3.2683	2.8655
February-2015	2.8782	2.8165	2.8811	2.6894
January-2015	2.6623	2.6328	2.7023	2.5754
December-2014	2.6562	2.6394	2.7403	2.5607
November-2014	2.5601	2.5484	2.6136	2.4839
October - 2014	2.4442	2.4483	2.5341	2.3914
September - 2014	2.4510	2.3329	2.4522	2.2319
2014	2.6562	2.3547	2.7403	2.1974
2013	2.3426	2.1601	2.4457	1.9528

2012	2.0435	1.9550	2.1121	1.7024
2011	1.8758	1.6746	1.9016	1.5345
2010	1.6662	1.7593	1.8811	1.6554

Dividends

The Company s total authorized capital stock is composed of common and preferred shares. As of December 31, 2014, the Company had 571,929,945 common shares and 1,132,613,562 non-voting preferred shares outstanding (excluding treasury stock).

The following table details dividends and interest on equity paid to holders of common and preferred stock since 2010. The figures are expressed in Brazilian reais and U.S. dollars. The exchange rate used for conversion to U.S. dollars was based on the date of the resolution approving the dividend.

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Dividends per share information has been computed by dividing dividends and interest on equity by the number of shares outstanding, which excludes treasury stock. The table below presents the quarterly dividends paid per share, except where stated otherwise:

Period	Date of Resolution	R$ per Share Common or Preferred Stock	$ per Share Common or Preferred Stock
1st Quarter 2010 (1)	05/06/2010	0.1200	0.0654
2st Quarter 2010	08/05/2010	0.1400	0.0798
3st Quarter 2010 (1)	11/05/2010	0.1200	0.0714
4st Quarter 2010	03/03/2011	0.0600	0.0363
1st Quarter 2011	05/05/2011	0.0600	0.0370
2nd Quarter 2011 (1)	08/04/2011	0.0900	0.0571
3rd Quarter 2011	11/10/2011	0.1200	0.0681
4th Quarter 2011	02/15/2012	0.0800	0.0466
1st Quarter 2012	05/02/2012	0.0600	0.0313
2nd Quarter 2012	08/02/2012	0.0900	0.0440
3rd Quarter 2012	11/01/2012	0.0700	0.0345
4th Quarter 2012	02/21/2013	0.0200	0.0101
1st Quarter 2013	05/07/2013	0.0200	0.0099
2nd Quarter 2013 (1)	08/01/2013	0.0700	0.0305
3rd Quarter 2013 (1)	10/31/2013	0.1200	0.0545
4th Quarter 2013	02/21/2014	0.0700	0.0296
1st Quarter 2014 (1)	05/30/2014	0.0700	0.0312
2nd Quarter 2014	08/21/2014	0.0600	0.0265
3rd Quarter 2014 (1)	11/27/2014	0.0500	0.0199
4th Quarter 2014	03/26/2015	0.0700	0.0219

(1) Payment of interest on equity.

Brazilian Law 9,249 of December 1995 provides that a company may, at its sole discretion, pay interest on equity in addition to or instead of dividends (See Item 8   Financial Information - Interest on Equity). A Brazilian corporation is entitled to pay its shareholders interest on equity up to the limit based on the application of the TJLP rate (Long-Term Interest Rate) to its shareholders   equity or 50% of the net income in the fiscal year, whichever is higher. This payment is considered part of the mandatory dividend required by Brazilian Corporation Law for each fiscal year. The payment of interest on equity described herein is subject to a 15% withholding tax. See Item 10.   Additional Information Taxation .

Gerdau has a Dividend Reinvestment Plan (DRIP), a program that allows the holders of Gerdau ADRs to reinvest dividends to purchase additional ADRs in the Company, with no issuance of new shares. Gerdau also provides its shareholders with a similar program in Brazil that allows the reinvestment of dividends in additional shares, with no issuance of new shares.

B. CAPITALIZATION AND INDEBTEDNESS

Not required, as the Company is filing this Form 20-F as an annual report.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not required, as the Company is filing this Form 20-F as an annual report.

D. RISK FACTORS

The Company may not successfully integrate its businesses, management, operations or products, or achieve any of the benefits anticipated from future acquisitions.

Over the years, the Company has expanded its presence mainly through acquisitions in the North American, Latin American, European and Asian markets. The integration of the business and opportunities stemming from entities recently acquired and those that may be acquired by the Company in the future may involve risks. The Company may not successfully integrate acquired

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businesses, managements, operations, products and services with its current operations. The diversion of management s attention from its existing businesses, as well as problems that can arise in connection with the integration of the new operations may have an impact on revenue and operating results. The integration of acquisitions may result in additional expenses that could reduce profitability. The Company may not succeed in addressing these risks or any other problems encountered in connection with past and future acquisitions.

All these acquisitions generated goodwill, which is stated in the Company s balance sheet. The Company evaluates the recoverability of this goodwill on investments annually and uses accepted market practices, including discounted cash flow for business segments which have goodwill. A downturn in the steel market could negatively impact expectations for futures earnings, leading to the need to recognize an expense in its statement of income regarding the impairment in goodwill.

The Company may be unable to reduce its financial leverage, which could increase its cost of capital, in turn adversely affecting its financial condition or operating results.

In 2007, the international rating agencies, Fitch Ratings and Standard & Poor s, classified the Company s credit risk as investment grade , enabling the Company to access more attractive borrowing rates. In the beginning of December 2011, Moody s assigned the Investment Grade rating Baa3 for all of Gerdau s ratings, with a stable perspective. Since then, Gerdau has the Investment Grade of the three principal rating agencies: Fitch Ratings, Moody s and Standard & Poor s.

The efforts to maintain operating cash generation and to reduce the indebtedness level helped the Company to maintain its credit risk, so that in 2014 the three agencies have issued reports reiterating the investment grade rating, with a stable outlook.

A reduction in operating cash flow or an increase in the Company s debt may result in loss of its Investment Grade rating, which in turn could increase its cost of capital and adversely affect its financial condition and operating results.

The Company s level of indebtedness could adversely affect its ability to raise additional capital to fund operations, limit the ability to react to changes in the economy or the industry and prevent it from meeting its obligations under its debt agreements.

The Company s degree of leverage could have important consequences, including the following:

- It may limit the ability to obtain additional financing for working capital, additions to fixed assets, product development, debt service requirements, acquisitions and general corporate or other purposes;

- It may limit the ability to declare dividends on its shares and ADSs;

- A portion of the cash flows from operations must be dedicated to the payment of interest on existing indebtedness and is not available for other purposes, including operations, additions to fixed assets and future business opportunities;

- It may limit the ability to adjust to changing market conditions and place the Company at a competitive disadvantage compared to its competitors that have less debt;

- The Company may be vulnerable in a downturn in general economic conditions;

- The Company may be required to adjust the level of funds available for additions to fixed assets; and

- Pursuant to the Company s financial agreements, the penalty for non-compliance with prescribed financial covenants can lead to a declaration of default by the creditors of the relevant loans. Furthermore, R$ 15.4 billion of the Company s total indebtedness as of December 31, 2014 was subject to cross-default provisions, with threshold amounts varying from US$10.0 million to US$100.0 million, depending on the agreement. Thus, there is a risk that an event of default in one single debt agreement can potentially trigger events of default in other debt agreements.

Under the terms of its existing indebtedness, the Company is permitted to incur additional debt in certain circumstances but doing so could increase the risks described above.

Unfavorable outcomes in litigation may negatively affect our results of operations, cash flows and financial condition.

We are involved in numerous tax, civil and labor disputes involving significant monetary claims.

The principal litigations are described more fully in Item 8.A. Legal Proceedings and in Note 17 to the consolidated financial statements comprising part of this Annual Report on 20-F. Among the material matters for which no reserve has been established are the following:

- The Company and its subsidiary, Gerdau Aços Longos S.A. and Gerdau Açominas S.A. are parties in legal proceedings related to Tax on Circulation of Goods and Services (*Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) discussions, mostly related to credit rights and aliquot differences. The total amount of the discussions is R$997 million.

- The Company and its subsidiaries, Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are part in legal proceedings discussing taxation of Corporate Income Tax (IRPJ) and Social Contribution Tax on Profits (Contribuição Social sobre o Lucro - CSLL) over profits generated abroad, in the amount of R$1,386 million.

- The Company s subsidiaries, Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., have administratively challenged the disallowance of the deductibility of a premium generated through a corporate reorganization in 2005, in accordance with articles 7 and 8 of Law no. 9532/97. The premium was deducted from the tax bases of the income tax and social contribution on profits in the 2005-2010 period. The total updated amount under discussion is R$3,408 million.

If unfavorable decisions are rendered in one or more of these lawsuits, we could be required to pay substantial amounts, which could materially adversely affect our results of operations, cash flows and financial condition.

Unexpected equipment failures may lead to production curtailments or shutdowns.

The Company operates several steel plants in different sites. Nevertheless, interruptions in the production capabilities at the Company s principal sites would increase production costs and reduce shipments and earnings for the affected period. In addition to periodic equipment failures, the Company s facilities are also subject to the risk of catastrophic loss due to unanticipated events such

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as fires, explosions or violent weather conditions. The Company s manufacturing processes are dependent upon critical pieces of steelmaking equipment, such as its electric arc furnaces, continuous casters, gas-fired reheat furnaces, rolling mills and electrical equipment, including high-output transformers, and this equipment may, on occasion, incur downtime as a result of unanticipated failures. The Company has experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in production capabilities would adversely affect the Company s productivity and results of operations. Moreover, any interruption in production capability may require the Company to make additions to fixed assets to remedy the problem, which would reduce the amount of cash available for operations. The Company s insurance may not cover the losses. In addition, long-term business disruption could harm the Company s reputation and result in a loss of customers, which could materially adversely affect the business, results of operations, cash flows and financial condition.

The Company has no proven or probable reserves, and the Company s decision to commence industrial production, in order to supply its steelmaking works as well as sell any surplus volume, is not based on a study demonstrating economical recovery of any mineral reserves and is therefore inherently risky. Any funds spent by the Company on exploration or development could be lost.

The Company has not established any proven or probable mineral reserves at any of its properties. All exploration activities are supported based on mineral resources classified as mineralized materials, as they are not compliant with the definitions established by the SEC of proven or probable reserves. The Company is conducting a comprehensive exploration study to establish, in accordance with SEC definitions, the amount of mineralized material that could be transformed to proven or probable reserves. Thus, part of the volume of mineralized materials informed discussed herein may never reach the development or production stage.

In order to demonstrate the existence of proven or probable reserves, it would be necessary for the Company to perform additional exploration to demonstrate the existence of sufficient mineralized material with satisfactory continuity and obtain a positive feasibility study which demonstrates with reasonable certainty that the deposit can be economically and legally extracted and produced. The absence of proven or probable reserves makes it more likely that the Company s properties may cease to be profitable and that the money spent on exploration and development may never be recovered.

Our mineral resource estimates may materially differ from mineral quantities that we may be able to actually extract.

Our mining resources are estimated quantities of ore and minerals. There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond our control. Reserve engineering involves estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. In addition, estimates of different engineers may vary. As a result, no assurance can be given that the amount of mining resources will be extracted or that they can be extracted at commercially viable rates.

Estimates of mineralized material are based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.

When making determinations about whether to advance any projects to development, the Company relies upon estimated calculations as to the mineralized material on its properties. Since the Company has not conducted a feasibility study demonstrating proven or probable reserves,

estimates of mineralized material presented are less certain than would be the case if the estimates were made in accordance with the SEC-recognized definition of proven and probable reserves. Furthermore, until ore is actually mined and processed, any mineral reserves and grades of mineralization must be considered as estimates only. These estimates are imprecise and depend on geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure that these mineralized material estimates will be accurate or that this mineralized material can be mined or processed profitably and any decision to move forward with development is inherently risky. Further, there can be no assurance that any minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or production scale. Any material changes in estimates of mineralized material will affect the economic viability of placing a property into production and such property s return on capital.

The Company s projects are subject to risks that may result in increased costs or delay or prevent their successful implementation.

The Company is investing to further increase mining production capacity. See Item 4D. Property, Plant and Equipment . These projects are subject to a number of risks that may adversely affect the Company s growth prospects and profitability, including the following:

- the Company may encounter delays, availability problems or higher than expected costs in obtaining the necessary equipment, services and materials to build and operate a project;

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- the Company s efforts to develop projects according to schedule may be hampered by a lack of infrastructure, including availability of overburden and waste disposal areas as well as reliable power and water supplies;

- the Company may fail to obtain, lose, or experience delays or higher than expected costs in obtaining or renewing the required permits, authorizations, licenses, concessions and/or regulatory approvals to build or continue a project; and

- changes in market conditions, laws or regulations may make a project less profitable than expected or economically or otherwise unfeasible.

Any one or a combination of the factors described above may materially and adversely affect the Company.

Drilling and production risks could adversely affect the mining process.

Once mineral deposits are discovered, it can take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial time and expenditures are required to:

- establish mineral reserves through drilling;

- determine appropriate mining and metallurgical processes for optimizing the recovery of metal contained in ore;

- obtain environmental and other licenses;

- construct mining, processing facilities and infrastructure required for greenfield properties; and

- obtain the ore or extract the minerals from the ore.

If a mining project proves not to be economically feasible by the time we are able to profit from it, the Company may incur substantial losses and be obliged to take write-offs. In addition, potential changes or complications involving metallurgical and other technological processes

arising during the life of a project may result in delays and cost overruns that may render the project not economically feasible.

The interests of the controlling shareholder may conflict with the interests of the non-controlling shareholders.

Subject to the provisions of the Company´s By-Laws, the controlling shareholder has powers to:

- elect a majority of the directors and nominate executive officers, establish the administrative policy and exercise full control of the Company´s management;

- sell or otherwise transfer the Company´s shares; and

- approve any action requiring the approval of shareholders representing a majority of the outstanding capital stock, including corporate reorganization, acquisition and sale of assets, and payment of any future dividends.

By having such power, the controlling shareholder can make decisions that may conflict with the interest of the Company and other shareholders.

Non-controlling shareholders may have their stake diluted in an eventual capital increase.

If the Company decides to make a capital increase through issuance of securities, there may be a dilution of the interest of the non-controlling shareholders in the current composition of the Company s capital.

Participation in other activities related to the steel industry may conflict with the interest of subsidiaries and affiliates.

Through its subsidiaries and affiliates, the Company also engages in other activities related to production and sale of steel products, including reforestation projects; power generation; production of coking coal, iron ore and pig iron; and fab shops and downstream operations. Having the management control in these companies, the Company s interests may conflict with the interest of these subsidiaries and affiliates.

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Higher steel scrap prices or a reduction in supply could adversely affect production costs and operating margins.

The main metal input for the Company s mini-mills, which mills accounted for 78.0% of total crude steel output in 2014 (in volume), is steel scrap. Although international steel scrap prices are determined essentially by scrap prices in the U.S. local market, because the United States is the main scrap exporter, scrap prices in the Brazilian market are set by domestic supply and demand. The price of steel scrap in Brazil varies from region to region and reflects demand and transportation costs. Should scrap prices increase significantly without a corresponding increase in finished steel selling prices, the Company s profits and margins could be adversely affected. An increase in steel scrap prices or a shortage in the supply of scrap to its units would affect production costs and potentially reduce operating margins and revenues.

Increases in iron ore and coal prices, or reductions in market supply, could adversely affect the Company s operations.

When the prices of raw materials, particularly iron ore and coking coal, increase, and the Company needs to produce steel in its integrated facilities, the production costs in its integrated facilities also increase. The Company uses iron ore to produce liquid pig iron at its mills Ouro Branco, Barão de Cocais and Divinópolis in the state of Minas Gerais, as well as Siderperu mill, in Peru. Iron ore is also used to produce sponge iron at the Usiba mill in the state of Bahia.

The Ouro Branco mill is the Company s largest mill in Brazil, and its main metal input for the production of steel is iron ore. This unit represented 49.5% of the total crude steel output (in volume) of the Brazil Business Operation. A shortage of iron ore in the domestic market may adversely affect the steel producing capacity of the Brazilian units, and an increase in iron ore prices could reduce profit margins.

The Company has iron ore mines in the state of Minas Gerais, Brazil. To reduce the exposure to iron ore price volatility, the Company invested in the expansion of the production capacity of these mines, and at the end of 2012, reached 100% of the iron ore requirements of the Ouro Branco mill.

All of the Company s coking coal requirements for its Brazilian units are imported due to the low quality of Brazilian coal. Coking coal is the main energy input at the Ouro Branco mill and is used at the coking facility. Although this mill is not dependent on coke supplies, a contraction in the supply of coking coal could adversely affect the integrated operations at this site. The coking coal used in this mill is imported from Canada, the United States, Australia and Colombia. A shortage of coking coal in the international market would adversely affect the steel producing capacity of the Ouro Branco mill, and an increase in prices could reduce profit margins. The Company does not have relevant long-term supply contracts for the raw materials it uses.

The Company s operations are energy-intensive, and energy shortages or higher energy prices could have an adverse effect.

Crude steel production is an energy-intensive process, especially in melt shops with electric arc furnaces. Electricity represents an important production component at these units, as also does natural gas, although to a lesser extent. Electricity cannot be replaced at the Company s mills and power rationing or shortages could adversely affect production at those units.

Given the current situation of possible electricity rationing in Brazil, the Company has the option to ramp up crude steel production at the Ouro Branco mill, which internally generates around 70% of its electricity needs, using the gases produced during steel production. As a result, the mill s exposure to the electricity market is much lower than that of mini-mills. Consequently, a part of the production of steel through mini-mills could be transferred to the Ouro Branco mill, which accounts for about 50% of Brazil s crude steel production capacity.

Natural gas is used in the reheating furnaces of the Company s rolling mills. In the case of shortages in the supply of natural gas, the Company could in some instances use fuel oil, diesel or LPG.

Global crises and subsequent economic slowdowns may adversely affect global steel demand. As a result, the Company s financial condition and results of operations may be adversely affected.

Historically, the steel industry has been highly cyclical and deeply impacted by economic conditions in general, such as world production capacity and fluctuations in steel imports/exports and the respective import duties. After a steady period of growth between 2004 and 2008, the marked drop in demand resulting from the global economic crisis of 2008-2009 once again demonstrated the vulnerability of the steel market to volatility of international steel prices and raw materials. That crisis was caused by the dramatic increase of high risk real estate financing defaults and foreclosures in the United States, with serious consequences for bank and financial markets throughout the world. Developed markets, such as North America and Europe, experienced a strong recession due to

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the collapse of real estate financings and the shortage of global credit. As a result, the demand for steel products suffered a decline in 2009, but since 2010 has been experiencing a gradual recovery, principally in the developing economies.

The economic downturn and unprecedented turbulence in the global economy can negatively impact the consuming markets, affecting the business environment with respect to the following:

- Decrease in international steel prices;
- Slump in international steel trading volumes;
- Crisis in automotive industry and infrastructure sectors; and
- Lack of liquidity, mainly in the U.S. economy.

If the Company is not able to remain competitive in these shifting markets, our profitability, margins and income may be negatively affected. Although the demand for steel products has experienced a gradual improvement in recent years, no assurance can be given that these improvements will continue. A decline in this trend could result in a decrease in Gerdau shipments and revenues.

Brazil s political and economic conditions and the Brazilian government s economic and other policies may negatively affect demand for the Company s products as well as its net sales and overall financial performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the country s economy. The Brazilian government s actions to control inflation and implement other policies have involved hikes in interest rates, wage and price controls, devaluation of the currency, freezing of bank accounts, capital controls and restrictions on imports.

The Company s operating results and financial condition may be adversely affected by the following factors and the government responses to them:

- exchange rate controls and fluctuations;

- interest rates;
- inflation;
- tax policies;
- energy shortages;
- liquidity of domestic and foreign capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in Brazilian securities markets and securities issued abroad by Brazilian issuers. These and other developments in Brazil s economy and government policies may adversely affect the Company and its business.

Inflation and government actions to combat inflation may contribute significantly to economic uncertainty in Brazil and could adversely affect the Company s business.

Brazil has experienced high inflation in the past. Since the implementation of the Real Plan in 1994, the annual rate of inflation has decreased significantly, as measured by the National Broad Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA). Inflation measured by the IPCA index was 5.8% in 2012, 5.9% in 2013 and 6.4% in 2014. If Brazil were to experience high levels of inflation once again, the country s rate of economic growth could slow, which would lead to lower demand for the Company s products in Brazil. Inflation is also likely to increase some costs and expenses which the Company may not be able to pass on to its customers and, as a result, may reduce its profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, which could lead the cost of servicing the Company s debt denominated in Brazilian

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reais to increase. Inflation may also hinder its access to capital markets, which could adversely affect its ability to refinance debt. Inflationary pressures may also lead to the imposition of additional government policies to combat inflation that could adversely affect its business.

Variations in the foreign exchange rates between the U.S. dollar and the currencies of countries in which the Company operates may increase the cost of servicing its debt denominated in foreign currency and adversely affect its overall financial performance.

The Company s operating results are affected by fluctuations in the foreign exchange rates between the Brazilian *real*, the currency in which the Company prepares its financial statements, and the currencies of the countries in which it operates.

Significant depreciation in the Brazilian *real* in relation to the U.S. dollar or other currencies could reduce the Company s ability to service its obligations denominated in foreign currencies, particularly since a significant part of its net sales revenue is denominated in Brazilian reais.

For example, the North America Business Operation reports its results in U.S. dollars. Therefore, fluctuations in the exchange rate between the U.S. dollar and the Brazilian *real* could affect its operating results. The same occurs with all other businesses located outside Brazil with respect to the exchange rate between the local currency of the respective subsidiary and the Brazilian *real*.

Export revenue and margins are also affected by fluctuations in the exchange rate of the U.S. dollar and other local currencies of the countries where the Company produces in relation to the Brazilian *real*. The Company s production costs are denominated in local currency but its export sales are generally denominated in U.S. dollars. Revenues generated by exports denominated in U.S. dollars are reduced when they are translated into Brazilian *real* in periods during which the Brazilian currency appreciates in relation to the U.S. dollar.

The Brazilian *real* depreciated against the U.S. dollar by 8.9% in 2012. By the end of 2013 the Brazilian *real* had depreciated 14.6% against the U.S. dollar and in December of 2014 it recorded depreciation of 13.4%.

Depreciation in the Brazilian *real* in relation to the U.S. dollar could also result in additional inflationary pressures in Brazil, by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, depreciation in the Brazilian *real* could weaken investor confidence in Brazil.

The Company held debt denominated in foreign currency, mainly U.S. dollars, in an aggregate amount of R$ 15.7 billion at December 31, 2014, representing 81.9% of its gross indebtedness on a consolidated basis. On December 31, 2014, the Company held R$ 2.4 billion in cash equivalents and short-term investments denominated in currencies different from the Brazilian *real*, intended to be invested in maintenance capital expenditure, new production capacity or working capital, in the same countries in which such amount is available, considering the Company´s significant foreign operations. Due to its tax planning policy, the Company does not intend to transfer material amounts between countries, using different currencies. Additionally, the Company does not have any material restriction on the transfer of cash and short-term investments held by foreign subsidiaries and the funds are readily convertible into other foreign currencies, including the Brazilian *real*.

Demand for steel is cyclical and a reduction in prevailing world prices for steel could adversely affect the Company s operating results.

The steel industry is highly cyclical. Consequently, the Company is exposed to substantial swings in the demand for steel products, which in turn causes volatility in the prices of most of its products and eventually could cause write-downs of its inventories. In addition, the demand for steel products, and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic changes in the world economy and in the domestic economies of steel-producing countries, including general trends in the steel, construction and automotive industries. Since 2003, demand for steel products from developing countries (particularly China), the strong euro compared to U.S. dollar and world economic growth have contributed to a historically high level of prices for the Company s steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies experienced a significant slow down, in turn affecting many other countries. Since then, the price has experienced a high volatility in the global market due to the overcapacity in the world steel industry and slow growth in the steel consumption. A material decrease in demand for steel or exports by countries not able to consume their production, could have a significant adverse effect on the Company s operations and prospects.

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Less expensive imports from other countries into Brazil may adversely affect the Company s operating results.

Steel imports in Brazil caused downward pressure on steel prices in 2014, adversely affecting shipments and profit margins, especially in the fourth quarter. Competition from foreign steel producers is a threat and may grow due to an increase in foreign installed steel capacity, depreciation of the U.S. dollar and a reduction of domestic steel demand in other markets, with these factors leading to higher levels of steel imports into Brazil at lower prices. Any change in the factors mentioned above, as well as in duties or protectionist measures could result in a higher level of imports into Brazil, resulting in pressures on the domestic prices that could adversely impact our business.

Less expensive imports from other countries into North America and Latin America may adversely affect the Company s operating results.

Steel imports in North America and Latin America have forced a reduction in steel prices in the last several years, adversely affecting shipments and profit margins. The competition of foreign steel producers is strong and may increase due to the increase in their installed capacity, the depreciation of the U.S. dollar and the reduced domestic demand for steel in other markets, with those factors leading to higher levels of steel imports into North and Latin America at lower prices. In the past, the United States government adopted temporary protectionist measures to control the import of steel by means of quotas and tariffs. Some Latin American countries have adopted similar measures. These protectionist measures may not be adopted and, despite efforts to regulate trade, imports at unfair prices may be able to enter into the North American and Latin American markets, resulting in pricing pressures that may adversely affect the Company s results.

New Entrants into the Brazilian market can affect the Company s competitiveness.

Since 2009, the intention of installing new steel production capacity in Brazil has been announced by a number of players in the industry. If effected, these installations could result in a possible loss of market share, reduction of prices and shortage of raw materials with the resulting increase in their prices. The Company believes that this trend should continue throughout 2015.

An increase in China s steelmaking capacity or a slowdown in China s steel consumption could have a material adverse effect on domestic and global steel pricing and could result in increased steel imports into the markets in which the Company operates.

One significant factor in the global steel market has been China s high steel production capacity, which has been exceeding its domestic consumption needs. This has made China a net exporter of steel products, increasing its importance in different countries of the transoceanic market and consequently pushing down international steel prices. Moreover, China s lower growth rate has resulted in a slower pace of steel consumption in the country, consequently reducing demand for imported raw materials, which too puts pressure on global commodity prices. Any intensification of these factors could affect the Company s exports and results.

Restrictive measures on trade in steel products may affect the Company s business by increasing the price of its products or reducing its ability to export.

The Company is a steel producer that supplies both the domestic market in Brazil and a number of international markets. The Company s exports face competition from other steel producers, as well as restrictions imposed by importing countries in the form of quotas, ad valorem taxes, tariffs or increases in import duties, any of which could increase the costs of products and make them less competitive or prevent the Company from selling in these markets. There are no assurances that importing countries will not impose quotas, ad valorem taxes, tariffs or increase import duties.

Costs related to compliance with environmental regulations could increase if requirements become stricter, which could have a negative effect on the Company s operating results.

The Company s industrial units and other activities must comply with a series of federal, state and municipal laws and regulations regarding the environment and the operation of plants in the countries in which they operate. These regulations include procedures relating to control of air emissions, disposal of liquid effluents and the handling, processing, storage, disposal and reuse of solid waste, hazardous or not, as well as other controls necessary for a steel company.

Moreover, environmental legislation establishes that the regular functioning of operations that pollute, have the potential to pollute or that cause any form of environmental degradation, is subject to environmental licensing. This licensing is required for initial installation and operation of the project, as well as any expansions performed, and the licenses must be renewed periodically. Each of the licenses is issued according to the phase of the project s implementation. In order for the license to remain valid, the project must comply with conditions established by the environmental licensing body.

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Non-compliance with environmental laws and regulations could result in administrative or criminal sanctions and closure orders, in addition to the obligation of repairing damage caused to third parties and the environment, such as clean-up of contamination. If current and future laws become stricter, spending on fixed assets and costs to comply with legislation could increase and negatively affect the Company s financial situation. Moreover, future acquisitions could subject the Company to additional spending and costs in order to comply with environmental legislation.

Laws and regulations to reduce greenhouse gases and other atmospheric emissions could be enacted in the near future, with significant, adverse effects on the results of the Company s operations, cash flows and financial situation.

One of the possible effects of the expansion of greenhouse gas reduction requirements is an increase in costs, mainly resulting from the demand for renewable energy and the implementation of new technologies in the productive chain. On the other hand, demand is expected to grow constantly for recyclable materials such as steel, which, being a product that could be recycled numerous times without losing its properties, results in lower emissions during the lifecycle of the product.

The Company expects operations overseas to be affected by future federal, state and municipal laws related to climate change, seeking to deal with the question of greenhouse gas (GHG) and other atmospheric emissions. Thus, one of the possible effects of this increase in legal requirements could be an increase in energy costs.

Layoffs in the Company s labor force could generate costs or negatively affect the Company s operations.

A substantial number of our employees are represented by labor unions and are covered by collective bargaining or other labor agreements, which are subject to periodic negotiation. Strikes or work stoppages have occurred in the past and could reoccur in connection with negotiations of new labor agreements or during other periods for other reasons, including the risk of layoffs during a down cycle that could generate severance costs. Moreover, the Company could be adversely affected by labor disruptions involving unrelated parties that may provide goods or services. Strikes and other labor disruptions at any of the Company s operations could adversely affect the operation of facilities and the timing of completion and the cost of capital of our projects.

Developments and the perception of risks in other countries, especially in the United States and emerging market countries, may adversely affect the market prices of our preferred shares and ADSs.

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in the United States and emerging market countries, especially other Latin American countries. Although economic conditions are different in each country, the reaction of investors to economic developments in one country may cause the capital markets in other countries to fluctuate. Developments or adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from, and declines in the amount of foreign currency invested in Brazil.

The Brazilian economy is also affected by international economic and market conditions, especially economic and market conditions in the United States. Share prices on the BM&FBOVESPA, for example, have historically been sensitive to fluctuations in United States interest rates as well as movements of the major United States stocks indexes.

Economic developments in other countries and securities markets could adversely affect the market prices of our preferred shares or the ADSs, could make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all, and could also have a material adverse effect on our operations and prospects.

ITEM 4. COMPANY INFORMATION

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Gerdau S.A. is a Brazilian corporation (*Sociedade Anônima*) that was incorporated on November 20, 1961 under the laws of Brazil. Its main registered office is located at Av. Farrapos, 1811, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number is +55 (51) 3323 2000.

History

The current Company is the product of a number of corporate acquisitions, mergers and other transactions dating back to 1901. The Company began operating in 1901 as the Pontas de Paris nail factory controlled by the Gerdau family based in Porto Alegre, who is still the Company s indirect controlling shareholder. In 1969, Pontas de Paris was renamed Metalúrgica Gerdau S.A., which today is the holding company controlled by the Gerdau family and the parent company of Gerdau S.A..

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From 1901 to 1969, the Pontas de Paris nail factory grew and expanded its business into a variety of steel-related products and services. At the end of World War II, the Company acquired Siderúrgica Riograndense S.A., a steel producer also located in Porto Alegre, in an effort to broaden its activities and provide it with greater access to raw materials. In February 1948, the Company initiated its steel operations, which foreshadowed the successful mini-mill model of producing steel in electric arc furnaces using steel scrap as the main raw material. At that time the Company adopted a regional sales strategy to ensure more competitive operating costs. In 1957, the Company installed a second unit in the state of Rio Grande do Sul in the city of Sapucaia do Sul, and in 1962, steady growth in the production of nails led to the construction of a larger and more advanced factory in Passo Fundo, also in Rio Grande do Sul.

In 1967, the Company expanded into the Brazilian state of São Paulo, purchasing Fábrica de Arames São Judas Tadeu, a producer of nails and wires, which was later renamed Comercial Gerdau and ultimately became the Company s Brazilian distribution channel for steel products. In June 1969, the Company expanded into the Northeast of Brazil, producing long steel at Siderúrgica Açonorte in the state of Pernambuco. In December 1971, the Company acquired control of Siderúrgica Guaíra, a long steel producer in the state of Paraná in Brazil s South Region. The Company also established a new company, Seiva S.A. Florestas e Indústrias, to produce lumber on a sustainable basis for the furniture, pulp and steel industries. In 1979, the Company acquired control of the Cosigua mill in Rio de Janeiro, which currently operates the largest mini-mill in Latin America. Since then, the Company has expanded throughout Brazil with a series of acquisitions and new operations, and today owns 10 steel units in Brazil.

In 1980, the Company began to expand internationally with the acquisition of Gerdau Laisa S.A., the only long steel producer in Uruguay. In 1989 acquired the Canadian company Gerdau Ameristeel Cambridge, a producer of common long rolled steel products located in Cambridge, Ontario. In 1992, the Company acquired control of Gerdau AZA S.A., a producer of crude steel and long rolled products in Chile. Over time, the Company increased its international presence by acquiring a non-controlling interest in a rolling mill in Argentina, a controlling interest in Diaco S.A. in Colombia, and, most notably, additional interests in North America through the acquisition of Gerdau Ameristeel MRM Special Sections, a producer of special sections such as elevator guide rails and super light beams, and the former Ameristeel Corp., a producer of common long rolled products. In October 2002, through a series of transactions, the Company merged its North American steel production assets with those of the Canadian company Co-Steel, a producer of long steel, to create Gerdau Ameristeel, which is currently the second largest long steel producer in North America based on steel production volume. Gerdau Ameristeel itself has a number of operations throughout Canada and the United States, with 15 steel units and 57 fabrication shops and downstream operations.

In December 2003, Gerdau Açominas S.A., signed a purchase agreement with the Votorantim Group. Under this contract, Gerdau Açominas S.A. has agreed to purchase the real estate and mining rights of Companhia Paraibuna de Metais, a company controlled by Votorantim Group, whose mines were located at Miguel Burnier, Várzea do Lopes and Gongo Soco in the state of Minas Gerais. The assets involved in this transaction include 15 extraction concessions, located in a total area of 7,000 hectares. The original mining and steelworks facilities included in the aforementioned acquisition were decommissioned at that time.The price agreed upon for the purchase of the real estate and mineral rights described above was US$ 30 million (R$ 88.1 million on the date of the acquisition), with US$ 7.5 million paid at the signing of the agreement, 25% upon completion of the due diligence process and the remaining 50% in June of 2004. Gerdau s initial focus was to ensure its iron ore self-sufficiency within the state of Minas Gerais. Since the iron ore self-sufficiency on our integrated mill (Ouro Branco) was achieved in 2012, currently, the Company is conducting exploration and development studies on its mining operations in order to establish itself as a player in the global iron ore market.

In September 2005, Gerdau acquired 36% of the stock issued by Sipar Aceros S.A., a long steel rolling mill, located in the Province of Santa Fé, Argentina. This interest, added to the 38% already owned by Gerdau represents 74% of the capital stock of Sipar Aceros S.A. In the same month, Gerdau concluded the acquisition of a 57% interest in Diaco S.A., the largest rebar manufacturer in Colombia. In January 2008, Gerdau acquired an additional interest of 40% for US$107.2 million (R$ 188.7 million on the acquisition date), increasing its interest to 99% of the capital stock, a figure that also takes into consideration the dilution of non-controlling interests, which explains the higher Company share compared with the share in the two major acquisitions made.

In January 2006, through its subsidiary Gerdau Hungria Holdings Limited Liability Company, Gerdau acquired 40% of the capital stock of Corporación Sidenor S.A. for US$219.2 million (R$ 493.2 million on the acquisition date), the largest long special steel producer, forged parts manufacturer and foundry in Spain, and one of the major producers of forged parts using the stamping process in that country. In December 2006, Gerdau announced that its Spanish subsidiary Corporación Sidenor, S.A., had completed the acquisition of all outstanding shares issued by GSB Acero, S.A., a subsidiary of CIE Automotive for US$143.0 million (R$ 313.8 million on the acquisition date). In December 2008, Gerdau Hungria Holding Limited Liability Company acquired for US$288.0 million (R$ 674.0 million on the acquisition date) a 20% interest in Corporación Sidenor. With this acquisition, Gerdau became the majority shareholder (60%) in Corporación Sidenor.

In March 2006, the assets of two industrial units were acquired in the United States. The first was Callaway Building Products in Knoxville, Tennessee, a supplier of fabricated rebar to the construction industry. The second was Fargo Iron and Metal

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Company located in Fargo, North Dakota, a storage and scrap processing facility and service provider to manufacturers and construction companies.

In June 2006, Gerdau acquired for US$103.0 million (R$ 224.5 million on the acquisition date) Sheffield Steel Corporation in Sand Springs, Oklahoma in the USA. Sheffield is a mini-mill producer of common long steel, namely concrete reinforcement bars and merchant bars.

In the same month, Gerdau S.A. won the bid for 50% plus one share of the capital stock of Empresa Siderúrgica Del Perú S.A.A. (Siderperú) located in the city of Chimbote in Peru for US$60.6 million (R$ 134.9 million on the acquisition date). In November 2006, Gerdau also won the bid for 324,327,847 shares issued by Siderperú, which represented 33% of the total capital stock, for US$40.5 million, totaling US$101.1 million (R$ 219.8 million on the acquisition date). This acquisition added to the interest already acquired earlier in the year, for an interest of 83% of the capital stock of Siderperú.

In November 2006, the Company completed the acquisition of a 55% controlling interest in Pacific Coast Steel (PCS), for $104.0 million (R$ 227.4 million on the acquisition date). The company operates rebar fabrication plants in San Diego, San Bernardino, Fairfield, and Napa, California. Additionally, in April, 2008 Gerdau increased its stake in PCS to 84% paying US$82.0 million (R$ 138.4 million on the acquisition date). The acquisition of PCS expanded the Company s operations to the West Coast of the United States and also added rebar placing capability.

In March 2007, Gerdau acquired Siderúrgica Tultitlán, a mini mill located in the Mexico City that produces rebar and profiles. The price paid for the acquisition was US$259.0 million (R$ 536.0 million on the acquisition date).

In May 2007, Gerdau acquired an interest of 30% in Multisteel Business Holdings Corp., a holding of Indústrias Nacionales, C. por A. (INCA), a company located in Santo Domingo, Dominican Republic, that produces rolled products. This partnership allowed the Company to access the Caribbean market. The total cost of the acquisition was US$42.9 million (R$ 82.0 million on the acquisition date). In July 2007, the Company acquired an additional interest of 19% in Multisteel Business Holdings Corp., bringing its total interest in the Company to 49%. The total cost of this second acquisition was US$72.0 million (R$ 135.2 million on the acquisition date). In October, 2014, Gerdau and Complejo Metalúrgico Dominicano S.A. confirmed the merger of operations of its companies Industrias Nacionales and METALDOM, becoming denominated Gerdau Metaldom. This merger aims more efficiency and competitiveness in the Caribbean and Central America region and assures the supply of steel products for construction sector in the Dominicam Republic.

In June 2007, Gerdau acquired 100% of the capital stock of Siderúrgica Zuliana C.A., a Venezuelan company operating a steel mill in the city of Ojeda, Venezuela. The total cost of the acquisition was US$92.5 million (R$ 176.2 million on the acquisition date).

In the same month, Gerdau and the Kalyani Group from India initiated an agreement to establish a joint venture for an investment in Tadipatri, India. The joint venture included an interest of 45% in Kalyani Gerdau Steel Ltd. The agreement provides for shared control of the joint venture, and the purchase price was US$73.0 million (R$ 127.3 million on the acquisition date). In May 2008, Gerdau announced the conclusion of this acquisition. On July 7, 2012, the Company obtained control of Kalyani Gerdau Steel Ltds (KGS), which the Company had an interest of 91.28% as of the control acquisition date. In 2012, until the date the Company acquired control over KGS, the Company made capital increases in KGS, which resulted in an increase of shareholding interest, going from 80.57% in December 31, 2011 to 91.28%.

In September 2007, Gerdau concluded the acquisition of Chaparral Steel Company, increasing the Company s portfolio of products and including a comprehensive line of structural steel products. The total cost of the acquisition was US$4.2 billion (R$ 7.8 billion on the acquisition date), plus the assumption of certain liabilities.

In October 2007, Gerdau acquired 100% of Enco Materials Inc., a leading company in the market of commercial materials headquartered in Nashville, Tennessee. Enco Materials Inc. has eight units located in Arkansas, Tennessee and Georgia. The purchase price for this acquisition was US$46 million (R$ 84.9 million on the acquisition date) in cash, plus the assumption of certain liabilities of the acquired company.

In the same month, Gerdau executed a letter of intent for the acquisition of an interest of 49% in the capital stock of the holding company Corsa Controladora, S.A. de C.V., headquartered in Mexico City, Mexico. The holding company owns 100% of the capital stock of Aceros Corsa, S.A. de C.V. and its distributors. Aceros Corsa, located in the city of Tlalnepantla in the Mexico City metropolitan area, is a mini-mill responsible for the production of long steel (light commercial profiles). The acquisition price was US$110.7 million (R$ 186.3 million on the acquisition date). In February 2008, the Company announced the conclusion of this acquisition.

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In November 2007, Gerdau entered into a binding agreement for the acquisition of the steel company MacSteel from Quanex Corporation. MacSteel is the second largest producer of Special Bar Quality (SBQ) in the United States and operates three mini-mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The Company also operates six downstream operations in the states of Michigan, Ohio, Indiana and Wisconsin. The agreement did not include the Building Products business of Quanex, which is an operation not related to the steel market. The purchase price for this acquisition was US$1.5 billion (R$ 2.4 billion on the acquisition date) in addition to the assumption of their debts and some liabilities. Gerdau concluded the acquisition in April 2008.

In February 2008, Gerdau invested in the verticalization of its businesses and acquired an interest of 51% in Cleary Holdings Corp. for US$73.0 million (R$ 119.3 million on the acquisition date). The Company controls a metallurgical coke producer and coking coal reserves in Colombia. In August 2010, Gerdau S.A. concluded the acquisition of an additional 49% of the total capital of Cleary Holdings Corp. for US$57 million.

In April 2008, Gerdau entered into a strategic partnership with Corporación Centroamericana del Acero S.A., assuming a 30.0% interest in the capital of this company. The Company owns assets in Guatemala and Honduras as well as distribution centers in El Salvador, Nicaragua and Belize. The price of the acquisition was $180 million (R$ 303.7 million on the acquisition date).

In June, 2008, the parent company Metalúrgica Gerdau S.A. acquired a 29% stake of voting and total capital in Aços Villares S.A. from BNDESPAR for R$ 1.3 billion. As a payment, Metalúrgica Gerdau S.A. issued debentures to be exchanged for Gerdau S.A. s common shares. In December, 2009 the Company s stake in Aços Villares S.A. owned through its subsidiary Corporación Sidenor S.A. was transferred to direct control of Gerdau S.A., for US$ 218 million (R$ 384 million on the acquisition date), which then owned a total 59% stake in Aços Villares S.A. In December 30, 2010, Gerdau S.A. and Aços Villares S.A. shareholders approved the merger into Gerdau S.A. of Aços Villares S.A. The transaction was carried out through a share exchange, whereby the shareholders of Aços Villares S.A. received one share in Gerdau S.A. for each lot of twenty-four shares held. The new shares were credited on February 10, 2011. As a result of the transaction, Aços Villares S.A. was delisted from the Brazilian stock exchange. Following the issuance of new shares under the merger, on February 28, 2011, the capital stock of Gerdau S.A. was represented by 505,600,573 common shares and 1,011,201,145 preferred shares.

On January 6, 2009, the Company, through its subsidiary Gerdau Aços Longos S.A., signed an agreement for the acquisition of 100% of Maco Metalúrgica Ltda. for R$4.2 million. The activities of Maco Metalúrgica Ltda. include, among other things, the production and sale of drawn steel wires and electric-welded steel mesh. The acquisition was concluded on June 4, 2009.

On August 30, 2010, Gerdau S.A. concluded the acquisition of all outstanding common shares issued by Gerdau Ameristeel that it did not yet hold either directly or indirectly, for us$11.00 per share in cash, corresponding to a total of us$1.6 billion (R$ 2.8 billion). With the acquisition, Gerdau Ameristeel was delisted from the New York and Toronto stock exchanges.

On October 21, 2010, Gerdau S.A. concluded the acquisition of Tamco, a company based in the state of California. TAMCO is a mini-mill that produces rebar and is one of the largest producers on the West Coast of the United States. The acquisition price was approximately US$ 166.4 million (R$ 283.1 million on the acquisition date).

In January 2013, the Company acquired certain assets and liabilities from Cycle Systems Inc. for US$13.6 million (R$27.1 million on the acquisition date). The company is located in the city of Roanoke, Virginia in the United States and operates scrap processing centers in the state,

including a scrap shredder machine and various scrap yards.

On October 8, 2014, the Company concluded the sale of its 50% interest in its joint venture entity Gallatin Steel Company (Gallatin) to Nucor Corporation for R$ 937.8 million. The gain on the sale of this interest of R$ 636,528, before taxes was recognized in the income statement during the fourth quarter of 2014.

B. BUSINESS OVERVIEW

Steel Industry

The world steel industry is composed of hundreds of steel producing facilities and is divided into two major categories based on the production method utilized: integrated steel mills and non-integrated steel mills, sometimes referred to as mini-mills . Integrated steel mills normally produce steel from iron oxide, which is extracted from iron ore melted in blast furnaces, and refine the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, electric arc furnaces. Non-integrated steel mills produce steel by melting in electric arc furnaces scrap steel, which occasionally is complemented by other metals such as direct-reduced iron or hot-compressed iron. According to World Steel, in 2013 (last information available), 28.2% of the total crude steel production in the world was through mini-mill process and the remaining 71.8% was through the integrated process.

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Crude Steel Production by Process in 2013*

Country	Crude Steel Production (in million tonnes)	Production by Process (%) Mini-mill	Integrated
World	**1,600**	**28.2%**	**71.8%**
China	779	9.5%	90.5%
Japan	111	22.5%	77.5%
U.S.A.	87	60.6%	39.4%
India	81	68.3%	31.7%
Russia	69	30.2%	69.8%
S. Korea	66	39.0%	61.0%
Germany	43	31.6%	68.4%
Ukraine	33	6.0%	94.0%
Brazil	34	25.1%	74.9%

Source: Worldsteel/World Steel In Figures

*Last information available

Over the past 15 years, according to worldsteel, total annual crude steel production has grown from 849 million tonnes in 2000 to 1,637 million tonnes in 2014, for an average annual increase of 5.1%.

The main factor responsible for the increase in the demand for steel products has been China. Since 1993, China has become the world s largest steel market and currently consumes as much as the United States and Europe combined.

Over the past year, total annual crude steel production increased by 1.2% from 1,618.5 million tonnes in 2012 to 1,637.0 million tonnes in 2014, with a 7.7% growth in the Middle East, 1.9% in North America and 1.7% growth in the European Union.

Crude Steel Production (in million tonnes)

Source: worldsteel/monthly statistics

China is still undergoing a period of strong industrialization, launching numerous infrastructure projects and developing an important manufacturing base, which has contributed to increased Chinese output. China s crude steel production in 2014 reached 822.7 million tonnes, an increase of 0.9% over 2013. In 2014, China s share of world steel production was 50.3% of world total crude steel.

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Crude Steel Production by Country in 2014 (million tonnes)

Source: worldsteel/monthly statistics

Asia produced 1,110.7 million tonnes of crude steel in 2014, an increase of 1.4% compared to 2013, its share of world steel production amounted to 67.8% in 2014. Japan produced 110.7 million tonnes in 2014, stable when compared to 2013. India s crude steel production was 83.2 million tonnes in 2014, a 2.3% increase compared with 2013. South Korea showed an increase of 7.4%, producing 71.0 million tonnes in 2014.

The EU-28 registered an increase of 1.7% compared to 2013, with a production of 169.2 million tonnes of crude steel in 2014. The United Kingdom showed an increase of 1.7% compared to 2013, producing 12.1 million tonnes in 2014, while Germany remained stable when compared to 2013, producing 42.9 million tonnes in 2014.

In 2014, crude steel production in North America was 121.2 million tonnes, an increase of 1.9% compared with 2013. The United States produced 88.3 million tonnes of crude steel, 1.6% lower than 2013.

The CIS showed a crude steel production decrease of 2.8% in 2014. Russia produced 70.7 million tonnes of crude steel, an increase of 2.6% compared to 2013, while Ukraine recorded a decrease of 17.1% with year-end figures of 27.2 million tonnes.

The Brazilian Steel Industry

In 2014, Brazil maintained its position as the world s 9th largest producer of crude steel, with a production of 33.9 million tonnes, a 2.1% share of the world market and 75.0% of the total steel production in Latin America during the year.

Total sales of Brazilian steel products were 30.3 million tonnes in 2014, 30.1 million tonnes in 2013 and 30.9 million tonnes in 2012, exceeding domestic demand of 24.7 million tonnes in 2014, 26.5 million in 2013 and 25.4 million in 2012. In 2014, total steel sales in the domestic market decreased 9.0% from 2013, going from 22.8 million tonnes to 20.7 million tonnes.

The breakdown of total sales of Brazilian steel products in 2014 was 63.7% or 19.3 million tonnes of flat steel products, formed by domestic sales of 11.2 million tonnes and exports of 8.1 million tonnes. The other 36.3% or 11.0 million tonnes represented sales of long steel products, which consisted of domestic sales of 9.6 million tonnes and exports of 1.4 million tonnes.

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Breakdown of Total Sales of Brazilian Steel Products (million tonnes)

(*) Preliminary figures

Source: Instituto Aço Brasil

Domestic demand - Historically, the Brazilian steel industry has been affected by significant variations in domestic steel demand. Although per capita domestic consumption varies in accordance with Gross Domestic Product (GDP), variations in steel consumption tend to be more accentuated than changes in the level of economic growth. In 2014, Brazilian GDP increased by 0.1%, increased by 2.3% in 2013 and grew by 1.0% in 2012.

Exports and imports Over the past 20 years, the Brazilian steel industry has been characterized by a structural need for exports. The Brazilian steel market has undergone periods of excess capacity, cyclical demand and intense competition in recent years. Demand for finished steel products, based on apparent domestic consumption, has lagged total supply (total production plus imports).

In 2014, Brazilian steel exports totaled 9.5 million tonnes, representing 31.5% of total sales (domestic sales plus exports). Brazil has performed an important role in the world export market, principally as an exporter of semi-finished products (slabs, blooms and billets) for industrial use or for re-rolling into finished products. Brazilian exports of semi-finished products totaled 6.4 million tonnes in 2014, 4.8 million tonnes in 2013 and 6.3 million tonnes in 2012, representing 66.8%, 64.9% and 67.4% of Brazil s total exports of steel products, respectively.

Brazilian Production and Apparent Demand for Steel Products (million tonnes)

(*) Preliminary figures

Source: Instituto Aço Brasil

Brazil used to be a small importer of steel products. Considering the reduction in the international steel prices during 2010, the appreciation of the Brazilian *real* against the U.S. dollar and the decrease in demand for steel products in developed countries, the Brazilian levels of imports increased from 2.3 million tonnes in 2009 to 5.9 million tonnes in 2010 (excluding the imports made by the steel mills to avoid double counting), representing 22.0% of apparent domestic consumption. In 2012, imports were 3.8 million

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tonnes, dropped to 3.7 million tonnes in 2013 and increased to 4.0 million tonnes in 2014. In 2014, imports represented 16.1% of apparent domestic consumption.

Raw materials - One of Brazil s major competitive advantages is the low cost of its raw materials. Brazil has an abundance of high quality iron ore. Various integrated producers are located in the state of Minas Gerais, where some of the world s biggest iron ore mines are located. The cost of iron ore from small miners in Brazil is very competitive if compared to the cost of iron ore in China and in the United States.

In Brazil, most of the scrap metal consumed by steel mills comes from Brazil s Southeast and South regions. Mill suppliers deliver scrap metal obtained from obsolete products and industrial scrap directly to the steel mills.

Brazil is a major producer of pig iron. Most of the pig iron used in the steel industry comes from the state of Minas Gerais and the Carajás region, where it is produced by various small and midsized producers. The price of pig iron follows domestic and international markets, with charcoal and iron ore the main components of its cost formation.

North American Steel Industry

The global steel industry is highly cyclical and competitive due to the large number of steel producers, the dependence upon cyclical end markets and the high volatility of raw material and energy prices. The North American steel industry is currently facing a variety of challenges, including volatile pricing, high fixed costs and low priced imports. The future success of North American steel producers is dependent upon numerous factors, including general economic conditions, levels and prices of steel imports and the strength of the U.S. dollar.

Crude Steel Production by North American Countries (million tonnes)

Source: worldsteel/monthly statistics

Beginning in mid-2000 and continuing through 2002, the North American steel industry experienced a severe downward cycle due to excess global production capacity, high import levels at low prices, including prices that were below the combined costs of production and shipping, and weak general economic conditions. These forces resulted in lower domestic steel prices and significant domestic capacity closures. Prices for many steel products reached 10-year lows in late 2001. As a result of these conditions, over 20 U.S. steel companies sought protection under Chapter 11 of the United States Bankruptcy Code since the beginning of 2000.

In response to these conditions, in March 2002, Former President Bush imposed a series of tariffs and quotas on certain imported steel products under Section 201 of the Trade Act of 1974. These measures were intended to give the domestic steel industry an opportunity to strengthen its competitive position through restructuring and consolidation. On November 10, 2003, the World Trade Organization (WTO) Appellate Body issued a ruling that upheld an initial WTO panel ruling that declared the Section 201 tariffs on steel imports to be in violation of WTO rules concerning safeguard measures. On December 4, 2003, Former President Bush signed a proclamation terminating the steel safeguard tariffs, and announced that the tariffs had achieved their purpose and changed economic circumstances indicated it was time to terminate them. International trade negotiations, such as the ongoing Organization for Economic Cooperation and Development steel subsidy agreement negotiations and the WTO Doha Round negotiations, may affect future international trade rules with respect to trade in steel products.

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The North American steel industry has experienced a significant amount of consolidation in the last decade. Bankrupt steel companies, once overburdened with underfunded pension, healthcare and other legacy costs, were relieved of obligations and purchased by other steel producers. This consolidation, including the purchases of the assets of LTV Corporation, Bethlehem Steel Corporation, Trico Steel Co. LLC and National Steel Corporation, has created a lower operating cost structure for the resulting entities and a less fragmented industry. In the bar sector in 2002, the combination of Gerdau North America and Co-Steel in October 2002 and Nucor Corporation s acquisition of Birmingham Steel Corporation in February 2002 significantly consolidated the market. The Company s acquisition of the North Star Steel assets from Cargill in November 2004, Sheffield Steel Corporation in 2006 and Chaparral Steel Company in September 2007, have further contributed to this consolidation trend. Since the beginning of 2007, Tata Iron and Steel Co. Ltd. acquired Corus Group PLC, SSAB Svenskt Staal AB acquired Ipsco Inc., Essar Global Ltd. acquired Algoma Steel Inc., United States Steel Corporation acquired Stelco Inc., and Arcelormittal Inc. acquired Bayou Steel Corporation..

The steel industry demonstrated strong performance through the middle of 2008, resulting from the increased global demand for steel related products and a continuing consolidation trend among steel producers. Beginning in the fall of 2008, the steel industry began feeling the negative effects of the severe economic downturn brought on by the credit crisis. The economic downturn continued through 2009 and has resulted in a significant reduction in the production and shipment of steel products in North America, as well as reduced exports of steel products from the United States to other parts of the world. Since the beginning of 2010, the economy in North America has been showing signs of upturn, contributing to a gradual recovery in the steel industry, with an important improvement in the automotive sector. The Company believes that this trend should continue throughout 2015

Company Profile

Gerdau S.A. is mainly dedicated to the production and commercialization of steel products in general, through its mills located in Argentina, Brazil, Canada, Chile, Colombia, Spain, the United States, Guatemala, India, Mexico, Peru, the Dominican Republic, Uruguay and Venezuela.

Gerdau is the leading manufacturer of long steel in the Americas and a major global supplier of special steel. In Brazil, Gerdau also produces flat steel and iron ore, activities that are expanding its product mix and the competitiveness of its operations. Gerdau has industrial operations in 14 countries the Americas, Europe and Asia with a combined installed capacity of more than 25 million tonnes of steel a year. It is also Latin America s biggest recycler and, worldwide, transforms millions of tonnes of scrap metal into steel every year, reinforcing its commitment to sustainable development in the regions where it operates. With more than 120,000 shareholders, Gerdau s shares are listed on the New York, São Paulo and Madrid stock exchanges.

According to the Brazilian Steel Institute (Instituto Aço Brasil), Gerdau is Brazil s largest producer of long rolled steel. Gerdau holds significant market share in the steel industries of almost all countries where it operates and has been classified by worldsteel as the world s 16th largest steel producer based on its consolidated crude steel production in 2013 (last information available).

Gerdau operates steel mills that produce steel by direct iron-ore reduction (DRI) in blast furnaces and in electric arc furnaces (EAF). In Brazil it operates three integrated steel mills, including its largest mill, Ouro Branco, an integrated steel mill located in the state of Minas Gerais. The Company currently has a total of 52 steel producing facilities globally, including joint venture and associate companies.

As of December 31, 2014, total consolidated installed capacity, excluding the Company s investments in joint venture and associate companies, was 26.0 million tonnes of crude steel and 22.4 million tonnes of rolled steel products. In the same period, the Company had total consolidated assets of R$ 63.0 billion, consolidated net sales of R$ 42.5 billion, total consolidated net income (including non-controlling interests) of R$ 1.5 billion and shareholders equity (including non-controlling interests) of R$ 33.3 billion.

Gerdau offers a wide array of steel products, which can be manufactured according to the customer s specifications. The product mix includes crude steel (slabs, blooms and billets) sold to rolling mills, finished products for the construction industry such as rods, structural bars and hot rolled coils, finished products for consumer goods industry such as commercial rolled steel bars and machine wire and products for farming and agriculture such as poles, smooth wire and barbed wire. Gerdau also produces special steel products, normally with a certain degree of customization, utilizing advanced technology, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

A significant portion of Gerdau s steel production assets are located outside Brazil, particularly in the United States and Canada, as well as in Latin America, Europe and Asia. The Company began its expansion into North America in 1989, when consolidation in the global steel market effectively began. The Company currently operates 15 steel production units in the United States and Canada, and believes that it is one of the market leaders in North America in terms of production of certain long steel products, such as rods, commercial rolled steel bars, extruded products and beams.

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The Company s operating strategy is based on the acquisition or construction of steel mills located close to its customers and sources of the raw materials required for steel production, such as scrap metal, pig iron and iron ore. For this reason, most of its production has historically been geared toward supplying the local markets in which it has production operations. However, the Company also exports a portion of its production to other countries.

Through its subsidiaries and affiliates, the Company also engages in other activities related to the production and sale of steel products, including: reforestation; electric power generation projects; coking coal, iron ore and pig iron production; as well as fab shops and downstream operations.

Operations

The Company sells its products to a diversified list of customers for use in the construction, manufacturing and agricultural industries. Shipments by the Company s Brazilian operations include both domestic and export sales. Most of the shipments by the Company s business operations in North and Latin America (except Brazil) are aimed at their respective local markets.

Starting in 2014, the iron ore operation, which previously was reported under the Brazil Business Operation, was reported separately as a new business operation called Iron Ore. Thus, the numbers of 2012 and 2013 were adjusted accordingly for comparative pursposes.

The Company s corporate governance establishes a business segmentation, as follows:

- Brazil (Brazil Business Operation) includes the steel operations in Brazil (except special steel) and the metallurgical and coking coal operation in Colombia;

- North America (North America Business Operation) includes all North American operations, except Mexico and special steel;

- Latin America (Latin America Business Operation) includes all Latin American operations, except the operations in Brazil and the metallurgical and coking coal operations in Colombia;

- Special Steel (Special Steel Business Operation) includes the special steel operations in Brazil, Spain, United States and India.

- Iron Ore (Iron Ore Business Operation) includes the iron ore operations in Brazil.

The following tables present the Company s consolidated shipments in tonnage and net sales by Business Operation for the periods indicated:

Shipments

Gerdau S.A. Consolidated Shipments by Business Operations (1)	**Year ended December 31,**		
(1,000 tonnes)	**2014**	**2013**	**2012**
TOTAL STEEL	**17,869**	**18,519**	**18,594**
Brazil(2)	6,583	7,281	7,299
North America	6,154	6,145	6,472
Latin America	2,623	2,807	2,707
Special Steel	2,894	2,857	2,657
Eliminations and Adjustments	(385)	(571)	(541)
IRON ORE	**7,971**	**5,017**	**4,399**

(1) The information does not include data from joint ventures and associate companies.

(2) Does not consider coking coal and coke shipments.

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Net Sales

Gerdau S.A. Consolidated Net Sales by Business Operations (1) (R$ million)	Year ended December 31, 2014	2013	2012
TOTAL	**42,546**	**39,863**	**37,982**
Brazil(2)	14,294	14,837	14,028
North America	14,049	12,562	12,450
Latin America	5,670	5,366	4,964
Special Steel	8,644	8,023	7,389
Iron Ore	945	704	491
Eliminations and Adjustments	(1,055)	(1,629)	(1,340)

(1) The information does not include data from joint ventures and associate companies.

(2) Includes coking coal and coke net sales.

Brazil Business Operation

Steel information

The Brazil Business Operation minimizes delays by delivering its products directly to customers through outsourced companies under Gerdau s supervision. Sales trends in both the domestic and export markets are forecast monthly based on historical data for the three preceding months. Brazil Business Operation uses a proprietary information system to stay up-to-date on market developments so that it can respond swiftly to fluctuations in demand. Gerdau considers its flexibility in shifting between markets (Brazilian and export markets) and its ability to monitor and optimize inventory levels for most of its products in accordance with changing demand as key factors to its success.

In the Brazil Business Operation, sales volume in 2014 decreased 9.6% when compared to 2013, mainly influenced by the 5.8% reduction in the domestic market demand due to a lower level of activity in the construction and industry sectors, reflecting the low growth of the GDP. Furthermore, the 25.4% reduction on exports occurred due to the lower international prices and the global over supply of the steel industry.

In 2014, around 20% of the production sold in Brazil was distributed through the Company s distribution channel, with 89 stores throughout Brazil, 44 downstream facilities and five flat steel service centers, serving an significant number of customers. Another important distribution channel is the independent s network, formed by points of sales to which Gerdau sells its products, giving it comprehensive national coverage. Sales through its distribution network and to final industrial and construction consumers are made by Company employees and authorized sales representatives working on commission. This Business Operation has annual crude steel installed capacity of 9.1 million tonnes and 6.0 million tonnes of finished steel products.

Metallurgical and coking coal information

The coal mines are located in Tausa, Cucunubá, Samacá, Ráquira and Cúcuta, Colombia. The use of these mineral resources as an input for our integrated mill (Ouro Branco) should contribute to the long term competitiveness of this unit. The Company does not currently consider any of these properties to be a material property for purposes of Industry Guide 7 and none of these properties have any known reserves.

North America Business Operation

The North America Business Operation has annual production capacity of 10.0 million tonnes of crude steel and 9.1 million tonnes of finished steel products. It has a vertically integrated network of 15 steel units for the operation of a mini-mill, 33 scrap recycling facilities, 66 downstream operations (including three joint ventures) and fabshops. North America Business Operation s products are generally sold to steel service centers and steel fabricators or directly to original equipment manufacturers for use in a variety of industries, including construction, automotive, mining, cellular and electrical transmission, metal construction fabrication and equipment fabrication. Most of the raw material feed stock for the mini-mill operations is recycled steel scrap.

The mills of this business operation manufacture and commercialize a wide range of steel products, including steel reinforcement bars (rebar), merchant bars, structural shapes, beams, special sections and coiled wire rod. Some of these products are

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used by the downstream units to make products with a higher value-add, which consists of the fabrication of rebar, railroad spikes, cold drawn products, super light beam processing, elevator guide rails, grinding balls, wire mesh and wire drawing.

The downstream strategy is to have production facilities located in close proximity to customers job sites so that quick delivery is provided to meet their reinforcing steel needs and construction schedules.

In general, sales of finished products to U.S. customers are centrally managed by the Tampa sales office while sales to Canadian customers are managed by the Whitby sales office. There is also a sales office in Selkirk, Manitoba for managing sales of special sections and one in Texas for managing sales of structural products. Metallurgical service representatives at the mills provide technical support to the sales group. Sales of the cold drawn and super light beam products are managed by sales representatives located at their respective facilities. Fabricated rebar and elevator guide rails are generally sold through a bidding process in which employees at the Company s facilities work closely with customers to tailor product requirements, shipping schedules and prices.

At the North America Business Operation, shipments remained stable in 2014, on the level of 6.2 million tonnes, due to the maintenance of the good demand in the non-residential construction and industry sectors. On the other hand, the north American market was impacted by the increasing share of imported products.

The North America Business Operation accounted for 33.7% of overall Gerdau sales volumes. The Company s Canadian operations sell a significant portion of their production in the United States.

Latin America Business Operation

The Latin America Business Operation comprises 15 steel facilities (including joint ventures and associate companies), 47 retail facilities, 29 fab shops (including joint ventures and associate companies) and 18 scrap processing facilities (including associate companies) located in 9 countries. The entire operation is focused on the respective domestic markets of each country, operating mini-mills facilities with annual manufacturing capacity of 2.9 million tonnes of crude steel and 2.7 million tonnes of finished steel products. The Latin American operation accounted for 14.4% of overall Gerdau sales volumes, representing 2.6 million tonnes of finished products in 2014, a 6.6% decrease when compared to 2013, due to the increase of imports and the slower pace of economic growth in the region. The main representative countries in the Latin America Business Operation are Chile, Mexico, Colombia and Peru. Gerdau also operates in the markets of Uruguay, Argentina, Dominican Republic, Venezuela and Guatemala.

Chile - Has installed capacity of 520,000 tonnes of crude steel and 530,000 tonnes of rolled steel. This unit produces rebars, merchant bars, wire rods and nails, which are commercialized, primarily, in the domestic market. Gerdau in Chile sells its products to more than 150 clients, including distributors and end-users.

Colombia - The Company believes to have a market share of 27% of the Colombian common long steel market. The Company believes it to be the largest producer of steel and rebar in Colombia, selling its products through own distributors, third-party distributors and clients (end-users) in civil construction, industry and others. Colombian units have annual installed capacity of 854,000 tonnes of crude steel and 764,000 tonnes of rolled products.

Peru Is one of the main steel companies in Peru, with more than 50 years of experience in this business. The company sells its products to approximately 500 clients in the construction, manufacturing and mining sectors and has more than 140 distributors. Gerdau in Peru has annual installed capacity of 650,000 tonnes of crude steel and 520 tonnes of rolled products.

Mexico - It currently operates two mills producing crude and rolled steel located in the state of Mexico with aggregate annual installed production capacity of 500,000 tonnes of crude steel and 400,000 tonnes of rolled steel products, with another unit to produce structural profiles being built in the state of Hidalgo. It also has three scrap processing and collection units and 7 distribution centers. Gerdau Corsa produces rebars, cut and band rebars and structural profiles.

Special Steel Business Operation

The Special Steel Business Operation is composed of the operations in Brazil (Charqueadas, Pindamonhangaba and Mogi das Cruzes), in the United States (Fort Smith, Jackson and Monroe), in Spain (Basauri, Reinosa, Azkoitia and Vitoria) and in India (Tadipatri). This operation produces engineering steel (SBQ), tool steel, stainless steel, rolling mill rolls, large forged and casted engineering pieces. In order to meet the continuous need for innovation, this operation is constantly developing new products, such as high strength steels for suspension springs, clean steel, high temperability steels and steel with improved machining characteristics, among others.

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The Special Steel Business Operation recorded growth of 1.3% in shipments in 2014 compared to the prior year, due to a higher demand verified in Spain and North America, and a greater contribution from sales in the operation in India. On the other hand, the Brasil operations had a decrease in sales due to the lower level of activity in the automotive sector.

In Brazil, Gerdau special steel operations are located in Rio Grande do Sul (Charqueadas) and in São Paulo (Pindamonhangaba e Mogi das Cruzes). The special steel units in Brazil have a combined annual capacity of 1.4 million tonnes of crude steel and 1.9 million tonnes of rolled products, which is sold in the domestic and export markets. The operation in Brazil has more than 400 customers located mainly in Brazil, although its products are also exported to South America, North America, Europe and Asia.

In Europe, Gerdau special operations are located in Spain (Basauri, Reinosa, Azkoitia and Vitoria), which sells special steel to the entire continent and exports to North America, Africa and Asia. This operation has more than 450 clients located mainly in Spain, France, Germany and Italy, and has an annual installed capacity of 1.1 million tonnes of crude steel and 1.1 million tonnes of rolled products. The operation also has four downstream operations located in Spain.

In North America, Gerdau maintains a presence in United States, with three mini-mills located in Jackson (Michigan), Monroe (Michigan) and Fort Smith (Arkansas). The operation also has six downstream operations. The operation has an annual installed capacity of 1.3 million tonnes of crude steel and 1.2 million tonnes of rolled products and has more than 200 customers located mainly in the United States, Canada and Mexico.

In India, the Company initiated the operation of a plant for the production of special steel with capacity of 250 thousand tonnes of crude steel and 300 thousand tonnes of rolled products. Important projects are being executed, such as installing a second automatic inspection line (concluded in 2014), a new coke oven (to be concluded in 2015) and a power generation plant (to be concluded in 2015).

There are commercial and operational synergies among the units in this business operation through centralized marketing and production strategies.

Iron Ore Business Operation

Gerdau s mineral assets were incorporated to its business through the acquisition of lands and mining rights of Grupo Votorantim, in 2004, encompassing the Miguel Burnier, Várzea do Lopes, and Gongo Soco compounds, located in the iron producing region in the state of Minas Gerais, Brazil. From 2004 to 2010, several geological surveys (drilling and superficial geological mapping) were conducted in order to obtain further information on the acquired resources.

Gerdau is considered to be in the exploration stage. The Company is devoting substantially all of its present efforts to exploring and identifying iron mineralized material suitable for development. The properties have no reserves. Based on prior exploration, the Company believes there to be significant mineralization and intends to undertake an exploration program to prove the reserves.

The drilling campaign that the Company has already executed and intends to execute as follows:

- 2004 to 2011: 46.8 thousand meters of drill holes;
- 2012 to 2014: 41.9 thousand meters of drill holes;
- 2015 to 2017: 55.0 thousand meters of drill holes are planned in order to add information for geological modeling.

Current exploration activities as well as the future mining operations planned are conducted and expect to continue to be conducted under the open pit mining modality. The purpose of the planned drilling and mineral survey program, which is now in progress, is to transform mineral resources into reserves, based on global standards and definitions, to an appropriate extent in order to support the business plan established for the future. Additionally, due to current information on the mentioned areas, and their locations within the iron producing region in the state of Minas Gerais, Brazil, whose specific geology and similar examples of large-scale operations are extremely well-known and correlatable, this particular goal is estimated to be feasible.

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Exports

In 2014, the international steel industry continued to suffer from the effects of China s slowing economy and the stagnant world economy. In particular, China s positioning as a major importer of raw materials and exporter of steel products, combined with oversupply in international markets, contributed to a record declines in the prices of raw materials and steel products.

The behavior of international prices differed significantly in the first and second halves of 2014. In the first half, prices increased or remained stable, while in the second half prices of the main steel products (both long and flat) registered sharp decreases. Prices for the main long steel products (rebar, wire rods, profiles and structural profiles) declined by 6% to 23% in international markets, considering exports by traditional exporting countries (Turkey, Russia, Ukraine and China) in December 2014 in relation to December 2013. Prices for key flat steel products exported by China (hot-rolled coils and heavy plates) fell 6% to 16% on international markets, considering exports in December 2014 compared to December 2013.

In 2014, international political conflicts also played an important role in driving the dynamics of international markets. The conflict between Ukraine and Russia, for example, led to lower exports by the region. Later, the sanctions imposed on Russia by a number of countries adversely affected the country s domestic market, leading the prices of its products to fall and further pressuring international prices.

In 2014, Brazil remained Gerdau s main exporting country, accounting for 90% of its total exports by volume. The United States accounted for 5% of the total, while the remainder was exported from the units in Latin America.

The main export destination in 2014 was North America, accounting for 43%, which was driven by exports of slabs. South America was another important destination, due to the exports to supply the Group s companies, accounting for 39% by volume in 2014. Meanwhile, Central America, Europe and Asia each accounted for 6%.

The following table presents the Company s consolidated exports by destination for the periods indicated:

Gerdau S.A. Consolidated Exports by Destination	**Year ended December 31, 2014**	**2013**	**2012**
Total including shipments to subsidiaries (1,000 tonnes)	**1,134**	**1,715**	**2,413**
Africa		4%	1%
Central America	6%	12%	12%
North America	43%	23%	28%
South America	39%	42%	29%
Asia	6%	13%	21%
Europe	6%	6%	5%
Middle East			1%

In 2014, Gerdau continued to register its highest export volumes in billets and slabs, despite exporting products from almost its entire line.

Gerdau continues to build a diversified client base around the world, which will be fundamental for meeting the challenges ahead in 2015.

Products

The Company supplies its customers with a wide range of products, including steel products and iron ore:

Semi-finished products (Billets, Blooms and Slabs)

The semi-finished products (billets, blooms and slabs) have relatively low added value compared to other steel products. Billets are bars from square sections of long steel that serve as inputs for the production of wire rod, rebars and merchant bars. They represent 50% of the products from the Ouro Branco mill. Blooms are used to manufacture products such as springs, forged parts, heavy structural shapes and seamless tubes. Slabs are used in the steel industry for the rolling of a broad range of flat rolled products, and mainly used to produce hot and cold rolled coils, heavy slabs and profiles.

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The semi-finished products are produced using continuous casting and, in the case of blooms there is subsequent rolling process.

Common Long Rolled Products

Common long rolled products represent a major portion of the Company s production. The Company s main long rolled products include rebars, merchant bars and profiles, which are used mainly by the construction and manufacturing industries.

Drawn Products

Drawn products include barbed and barbless fence wire, galvanized wire, fences, concrete reinforcing wire mesh, nails and clamps. These products are not exported and are usually sold to the manufacturing, construction and agricultural industries.

Special Steel Products

Special or high-alloy steel requires advanced manufacturing processes and normally includes some degree of customization. The Company produces special and stainless steel used in automotive components, machinery, road and agricultural parts, mining equipment, tools, rail components and maritime mooring at its Pindamonhangaba, Mogi das Cruzes and Charqueadas units in Brazil, at Basauri, Azkoitia and Vitória units in Spain, at the Fort Smith, Jakson and Monroe units in the United States and in Tadipatri, India.

In the United States, Gerdau produces special sections such as grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company s clients, which are mainly manufacturers.

Flat Products

The Company s Ouro Branco mill produces slabs, which are rolled into flat products such as hot- and cold-rolled steel coils, heavy plates and profiles. Gerdau also produces hot-rolled coils, which are sold in the domestic and export markets. The Company distributes these hot-rolled coils through its distribution channel and direct sales, and also resells flat steel products manufactured by other Brazilian steel producers to which it adds further value through additional processing at its five flat steel service centers.

Iron Ore

Gerdau operates three mines producing iron ore, all located in the Brazilian state of Minas Gereais (Várzea do Lopes, Miguel Burnier and Gongo Soco). The mines produce the following: sinter feed (featuring low content of contaminants and good metallurgical properties, enabling its use as a base material); pellet feed/concentrated (superior quality enabling its use as a chemical balancer in the synthetizing process, while being also adequate for pelletizing, blast furnace quality - low loss by calcination PPC); hematite fines (small scale production, used as input in Gerdau s furnaces); and Granulated (high quality, used chiefly for own consumption at the Ouro Branco Mill).

The following table presents the main products and the contributions to net revenue and net income by Business Operation for the periods shown:

	Brazil			**North America**			**Latin America**			**Special Steel**			**Iron Ore**			
Products	**Rebars, merchant bars, beams, drawn products, billets, blooms, slabs, wire rod, structural shapes, hot rolled coil and iron ore.**			**Rebars, merchant bars, wire rod, light and heavy structural shapes.**			**Rebar, merchant bars and drawn products.**			**Stainless steel, special profiles and wire rod.**			**Sinter feed, Pellet feed and lump ore**			
Year	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**20**
Net Sales (R$ million)	14,294.4	14,837.1	14,028.3	14,048.5	12,562.2	12,449.7	5,670.0	5,366.4	4,964.4	8,643.9	8,023.1	7,388.7	944.8	704.3	490.6	(1,0
% of Consolidated Net Sales	33.6%	37.2%	36.9%	33.0%	31.5%	32.8%	13.3%	13.5%	13.1%	20.3%	20.1%	19.5%	2.2%	1.8%	1.3%	
Net Income (R$ million)	959.0	1,537.1	960.9	691.3	18.6	323.8	(162.0)	104.0	(42.1)	123.1	156.7	362.3	54.8	168.1	161.8	(1
% of Consolidated Net Income	64.4%	90.8%	64.2%	46.4%	1.1%	21.6%	-10.9%	6.1%	-2.8%	8.3%	9.3%	24.2%	3.7%	9.9%	10.8%	-

Production Process

In Brazil, the Company has a decentralized production process, using both mini-mills and integrated facilities. In general, the Company has used the mini-mill model to produce steel products outside of Brazil.

Non-Integrated Process (Mini-Mills)

The Company operates 44 mini-mills worldwide (excluding joint ventures and associate companies). Mini-mills are equipped primarily with electric arc furnaces that can melt steel scrap and produce the steel product at the required specifications. After loading the furnace with a preset mixture of raw material (i.e., steel scrap, pig iron and sponge iron), electric power is applied in accordance with a computer controlled melting profile. The Company s mini-mill production process generally consists of the following steps: obtaining raw material, melting, casting, rolling and drawing. The basic difference between this process and the integrated mill

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production process described below is in the first processing phase, i.e., the steelmaking process. Mini-mills are smaller plants than integrated facilities and the Company believes they provide certain advantages over integrated mills, including:

- lower capital costs,
- lower operational risks due to the low concentration of capital and installed capacity in a single production plant,
- proximity of production facilities to raw-material sources,
- proximity to local markets and easier adjustment of production levels, and
- more effective managerial structure due to the relative simplicity of the production process.

Integrated Process

The Company operates five integrated mills, of which three are located in Brazil, one in Peru and one in India. The Ouro Branco mill is the largest integrated facility the Company operates. Although it produces steel using a blast furnace, this mill has some of the advantages of a mini-mill since it is located very close to its main suppliers and the ports from which the Company exports most of its production.

The Company s steelmaking process in integrated facilities consists of four basic processes: raw material preparation, pig-iron production, steel production and production of semi-finished products (billets, blooms and slabs). In the primary stage of steel making, sinter (a mixture of iron ore and fluxes), coke and other raw materials are consumed in the blast furnace to produce pig iron. Coke acts as both a fuel and a reducing agent in this process. The Company s blast furnaces have installed capacity of 5.9 million tonnes of liquid pig iron per year.

The pig iron produced by the blast furnace is transported by rail to the desulphurization unit to reduce the sulfur content in the steel. After the desulphurization process, the low-sulfur pig-iron is transformed into steel through LD-type oxygen converters. The LD steelmaking process utilizes molten pig iron to produce steel by blowing oxygen over the metallic charge inside the converters. The process does not require any external source of energy, which is fully supplied by the chemical reactions that occur between the oxygen and the molten pig iron impurities. The LD steelmaking process is presently the most widely used in the world. Some mills further refine the LD converters output with ladle furnaces and degassing process.

The liquid steel is then sent to the continuous casting equipment, which are solidified in the form of billets, blooms or slabs. These products can be sold directly to customers, be transferred for processing into other Gerdau units or be transformed into rolled finished products in the Company´s own integrated units. Gerdau integrated units in Brazil have rebar, bars and rods, wire rods, structural steel and hot rolled coils rolling mills.

Logistics

Gerdau sells its products through independent distributors, direct sales from the mills and its retail network (Comercial Gerdau, which was merged into Gerdau Aços Longos S.A. in March, 2013).

Logistics costs are an important component of most steel businesses and represent a significant factor in maintaining competitive prices in the domestic and export markets. The Gerdau mills are strategically located in various different geographic regions. The Company believes that the proximity of its mills to raw material sources and important consumer markets gives it a competitive advantage in serving customers and obtaining raw materials at competitive costs. This represents an important competitive advantage in inbound and outbound logistics.

To adequate and reduce logistic costs, Gerdau uses specific solutions, directed to different types of transportation modes (road, rail, sea and cabotage), terminals, technology and equipment. Gerdau continuously seeks to improve its performance to receive raw materials, and to deliver products to its customers or ports of destination. Accordingly, Gerdau develops and maintain long-term relationships with logistic suppliers specialized in delivering raw materials and steel products.

In 1996 Gerdau acquired an interest in MRS Logística, one of the most important rail companies in Brazil, which operates connecting the states of São Paulo, Rio de Janeiro and Minas Gerais, which are Brazil s main economic centers, and also reaches the main ports of the country in this region. These shares provide the guarantee of using this mode to transport raw materials (scrap and pig iron) as well as final products.

Gerdau uses around 15 ports to deliver products from the entire Brazilian coastline. The majority of exports are shipped from Praia Mole Private Steel Terminal in Vitoria, Espírito Santo. Furthermore, this is Brazil s most efficient and productive seaport for handling steel products, with more than 20 years of expertise in this business.

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Overseas, Gerdau owns a private port terminal in Chimbote (Peru), where the Company has a steel mill, used to deliver inputs, raw material and products for the operation. In addition, the Company is currently in progress with a project and construction of a new export terminal for coal in Colombia.

Competition

The steel market is divided into manufacturers of long steel products, flat steel products and special steel.

The Company operates in the long steel market, which is the most important market for Gerdau, by supplying to the following customer segments: (i) construction, to which it supplies rebars, merchant bars, nails and meshes; (ii) manufacturing, to which it supplies products for machinery, agricultural equipment, tools and other industrial products; and (iii) other markets, to which it supplies wires and posts for agricultural installations and reforestation projects. In North America, the Company also supplies customers with special sections, including elevator guide rails and super light beams. The Company also provides its customers with higher value-added products at rebar fabrication facilities.

The Company operates in the flat steel market through its Ouro Branco mill that produces slabs, which are used to roll flat products such as hot and cold rolled steel coils and heavy plates. Gerdau also produces hot-rolled coils, which are sold in the domestic and export markets. The Company distributes these hot-rolled coils and also resells flat steel products manufactured by other Brazilian steel producers to which it adds further value through additional processing at its five flat steel service centers.

The Company produces special and stainless steel used in tools and machinery, chains, fasteners, railroad spikes, special coil steel, grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company s customers at its special steel units in Brazil, United States, Spain and India.

Competitive Position Brazil

The Brazilian steel market is very competitive. In the year ended December 31, 2014, the ArcelorMittal Brasil was the largest Brazilian crude steel producer, according to the Brazilian Steel Institute (IABr - Instituto Aço Brasil). Meanwhile, Gerdau was the second largest crude steel producer in Brazil during 2014.

The table below presents the Company s main competitors and market share in Brazil s crude steel market:

	Fiscal year ending December 31,		
Brazilian crude steel producers (%)	**2014***	**2013**	**2012**

ArcelorMittal Brasil	25.5	23.2	22.6
Gerdau	22.0	23.6	23.7
Usiminas	17.9	20.1	20.7
CSN	13.2	13.0	14.0
CSA	12.2	10.9	10.2
Others	9.2	9.2	8.8
Total	100.0	100.0	100.0

Source: IABr - Instituto Aço Brasil

(*) Preliminary figures

World common long rolled steel demand is met principally by steel mini-mills and, to a much lesser extent, by integrated steel producers. In the Brazilian market, no single company competes against the Company across its entire product range. The Company has been facing some competition from long steel products imports, mainly coming from Turkey, with more extension from 2010. The Company believes that the diversification of its products, the solution developed by its fab shops units and the decentralization of its business provide a competitive edge over its major competitors.

In the domestic market, Gerdau is almost an exclusive supplier of blooms and billets to well-defined and loyal customers that have been purchasing from it regularly for over 15 years. Intense competition exists between the Company and ArcelorMittal in the slab and wire rod markets.

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Competitive Position Outside Brazil

Outside Brazil, notably in North America, the Company has increased its market share through acquisitions, and believes to be the second largest mini-mill steel producer in North America, with annual nominal capacity of 10.0 million tonnes of crude steel and 9.1 million tonnes of rolled products.

Gerdau s geographic market in North America encompasses primarily the United States and Canada. The Company faces substantial competition in the sale of each of its products from numerous competitors in its markets. Rebar, merchant bars and structural shapes are commodity steel products for which pricing is the primary competitive factor. Due to the high cost of freight relative to the value of steel products, competition from non-regional producers is somewhat limited. Proximity of product inventories to customers, combined with competitive freight costs and low-cost manufacturing processes, are key to maintaining margins on rebar and merchant bar products. Rebar deliveries are generally concentrated within a 350-mile radius of the mini-mills and merchant bar deliveries are generally concentrated within a 500-mile radius. Some products produced by the Selkirk, Midlothian, Jacksonville, Jackson, Cartersville and Petersburg mini-mills are shipped greater distances, including overseas.

The Company s principal competitors include Commercial Metals Company (CMC), Nucor Corporation, Steel Dynamics Inc., and ArcelorMittal Inc.

Despite the commodity characteristics of the rebar, merchant bar and structural markets, Gerdau believes it distinguishes itself from many of its competitors due to the Company s large product range, product quality, consistent delivery performance, capacity to service large orders and ability to fill most orders quickly from inventory. The Company believes it produces one of the largest ranges of bar products and shapes. The Company s product diversity is an important competitive advantage in a market where many customers are looking to fulfill their requirements from a few key suppliers.

In Latin America, each country has a specific competitive position that depends on conditions in their respective markets. Most compete domestically and face significant competition from imports. Around 80% of shipments from Gerdau s Latin American Operation originate from Chile, Peru, Colombia and Mexico. In this market, the main barriers faced by Gerdau sales are freight and transportation costs and the availability of imports. The main products sold in the Latin American market are the constructions, mechanic, agriculture and mining markets.

The Special steel operations in Spain has approximately 8% stake of the special steel market in Europe; in United States, the Company believes to have approximately 23% of the special steel market; in Brazil, Gerdau s special steel units are combined the biggest player in that market, with a stake of approximately 75%; and, in India the production and commercialization of rolled products began in 2013, and continue to ramp up, providing gradual access in the Indian market.

Business Cyclicality and Seasonality

The steel industry is highly cyclical worldwide. Consequently, the Company is exposed to substantial swings in the demand for steel products which in turn causes volatility in the prices of most of its products. In addition, since the Brazilian steel industry produces substantially more steel than the domestic economy is able to consume, the sector is dependent on export markets. The demand for steel products and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic fluctuations in the world economy and the domestic economies of steel-producing countries, including general trends in the manufacturing, construction and automotive sectors. Since 2003, demand for steel products from developing countries (particularly China) and overall world economic growth have contributed to historically high levels in the prices of the Company s steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies showed strong signs of slow down, in turn affecting many other countries. Over the last few years, developing economies showed signs of gradual recovery while developed economies are still a challenging demand environment. The Company believes that in 2015 the world steel market should show a slight demand increase. A material decrease in demand for steel or exports by countries who are not able to consume their production, as happened in 2008, could have a significant adverse effect on the Company s operations and prospects.

In the Company s Brazilian and Latin American operations, shipments in the second and third quarters of the year tend to be stronger than in the first and fourth quarters, given the reduction in construction activity. In the Company s North American operations, demand is influenced by winter conditions, when consumption of electricity and other energy sources (i.e., natural gas) for heating increases and may be exacerbated by adverse weather conditions, contributing to increased costs and decreased construction activity, and in turn leading to lower shipments. In the Company s Special Steel Operations, particularly in Spain, the third quarter is traditionally marked by collective vacations that reduce operations in the quarter to only two months.

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Information on the Extent of the Company s Dependence

The Company is not dependent on industrial, commercial or financial agreements (including agreements with clients and suppliers) or on new production processes that are material to its business or profitability. The Company also has a policy of diversifying its suppliers, which enables it to replace suppliers without affecting its operations in the event of failure to comply with the agreements, except in the case of its energy and natural gas supply.

In addition to the government regulations that apply to its industry in general, the Company is not subject to any specific regulation that materially or adversely affect its business.

In the case of a power outage, there are no alternative supply options available at most Gerdau mills due to the high volume and tension required for the operation of these plants. Some Gerdau small plants may choose, as an alternative, to use generators to compensate for the energy shortage. Moreover, the Ouro Branco mill generates 70% of its power needs internally using gases generated in the steel-making process.

In case of a lack of natural gas, the equipment could be adjusted to use diesel and LPG.

Gerdau s operations are spread across various geographic regions, which mitigates the risk of any electricity or natural gas supply problems in Brazil.

The distribution of electric power and natural gas is a regulated monopoly in most countries, which leads the distributor to be the only supplier in each geographic region. In some countries, regulations allow for a choice of electrical power or natural gas commodity supplier, allowing Gerdau to diversify its supply agreement portfolio.

Furthermore, since 2012 the Company has been developing energy efficiency actions at all of its industrial units in the country in order to increase its energy savings on auxiliary equipment in the steel production process, which accounts for approximately 40% of the energy consumed by operations.

Brazil s growing energy consumption signals the importance of initiatives that help conserve resources and reduce environmental impacts. The project developed by Gerdau helps improve this scenario and the sustainability of the country s energy sector, since it seeks to increase the Company s energy efficiency by optimizing its industrial processes.

Production Inputs

Prices volatility

Gerdau s production processes are based mainly on the mini-mill concept, with mills equipped with electric arc furnaces that can melt ferrous scrap and produce steel products at the required specifications. The main raw material used at these mills is ferrous scrap, which at some plants is blended with pig iron. The component proportions of this mixture may change in accordance with prices and availability in order to optimize raw material costs. Iron, iron ore (used in blast furnaces) and ferroalloys are also important.

Although international ferrous scrap prices suffer high influence by the U.S. domestic market (since the United States is the largest scrap exporter), the price of ferrous scrap in Brazil varies from region to region and is influenced by demand and transportation costs. Gerdau believes to be the largest consumer of ferrous scrap in Brazil.

The Company s Brazilian mills use scrap and pig iron purchased from local suppliers. Due to the nature of the raw materials used in its processes, Gerdau has contracts with scrap generators, especially scrap from industrial sources, for its mini-mills in Brazil, acquiring scrap as necessary for the mills needs. Scrap for the Brazilian Operation is priced in Brazilian reais, thus input prices are not directly affected by currency fluctuations.

Due to its size, the Ouro Branco mill has developed over the last few years a strategy to diversify its raw materials, which are supplied through various types of contracts and from multiple sources, which include: (i) coking coals developed by Gerdau s unit in Colombia and other materials imported from the United States, Canada, Russia and Austrália, as well as petroleum coke purchased from Petrobrás and charcoal chaff also acquired from other domestic suppliers; (ii) ferroalloys, of which 85% are purchased in the domestic market; and (iii) iron ore, which is mainly produced from its own mines and partially supplied by medium and small sized mining companies, most of them strategically located close to the plant.

The main input used by the Company s mills in North America is ferrous scrap, and has consistently obtained adequate supplies of raw materials, not depending on a smaller number of suppliers. Due to the fact that the United States are one of the largest

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scrap exporters in the world, the prices of this raw-material, in this country, may fluctuate according to supply and demand in the world s scrap market.

The main input used by the Company s mills in Latin America is ferrous scrap. This operation is exposed to market fluctuations, varying its prices according to each local market.

Ferrous Scrap

There are two broad categories of ferrous scrap: (i) obsolete scrap, which is steel from various sources, ranging from cans to car bodies and white goods; and (ii) industrial scrap, which is composed of scrap from manufacturing processes, essentially steel bushings and flashings, steel turnings and even scrap generated by production processes at steel producers, such as Gerdau. The consumption of scrap in electric arc furnaces uses a combination of obsolete scrap and industrial scrap, the proportions of which varies in accordance with the availability of each one and the type of steel to the produced.

In 2014, Gerdau consumed more than 15 million tonnes of scrap, which accounted for significant gains from increasingly competitive operating costs.

Because ferrous scrap is one of its main raw materials in steel production, Gerdau is dedicated to improving its supply chain in various countries, aiming to develop and integrate micro and small suppliers into the Company s business. In Brazil, about 80% of the scrap consumed by the Company comes from its own collection process and from small and midsized scrap collectors who sell all their material to Gerdau, which provides a direct supply at more competitive costs for the Company. In North America, although smaller, the percentage is still significant, ensuring the competitiveness of the business in the region.

Brazil and Special Steel Business Operations - The price of steel scrap in Brazil varies by region and reflects local supply, demand and transportation costs. The Southeast is the country s most industrialized region and generates the highest volume of scrap. Due to the high concentration of players in this region, competition is more intense.

In Brazil, to ensure proper processing of the scrap purchased directly and from small and midsized collectors, Gerdau has, among other equipment, six scrap shredders, including a mega-shredder at the Cosigua mill in Rio de Janeiro that is capable of processing shredded scrap in volumes that exceed 200 car bodies per hour.

North America Business Operation - Ferrous scrap is the primary raw material. Although U.S. scrap production exceeds domestic consumption, with the country leading world exports of the product, availability varies in accordance with the level of economic activity, the season of the year and export levels, leading to price fluctuations. Twelve mills in the North America Business Operation have on-site dedicated scrap processing facilities, including shredder operations that supply a significant portion of their scrap requirements. Given that not all of the scrap it consumes is sourced from its own scrap yards, it purchases residual requirements in the market either directly or through dealers that source and prepare scrap.

Latin America Business Unit - The price of scrap in Latin America varies widely from country to country in accordance with supply, demand and transportation cost.

Pig Iron and Sponge Iron

Brazil Business Operation - Brazil is an exporter of pig iron. Most of Brazil s pig iron is produced in the state of Minas Gerais by a number of small producers. Pig iron is a drop-in substitute for scrap and in Brazil it is an important component of the metal mix used to make steel in the mills. The price of pig iron follows domestic and international demand and the cost of charcoal, the most volatile cost item in pig iron production.

In Brazil, Gerdau does not have pig iron supply contracts, negotiating volumes and delivery conditions directly with suppliers. The price of pig iron may fluctuate in line with the variation in international prices, given that a large portion of production in Brazil is exported.

North America Business Operation - Scrap availability imprints a unique characteristic on the use of pig iron and sponge iron, which are used in limited amounts only to produce steels with particular characteristics. Gerdau does not utilize significant volumes of scrap substitutes in mini-mills, except for pig iron, which, due to its chemical properties, is used to produce steels with particular characteristics.

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Iron Ore

Iron ore is the main input used to produce pig iron at Gerdau s blast furnace mills located in the state of Minas Gerais, southeastern Brazil. The pig iron is used in the melt shops together with scrap, to produce steel.

Iron ore is purchased in its natural form as lump ore, pellet feed or sinter feed, or agglomerated as pellets. The lump ore and pellets are loaded directly into the blast furnace, while the sinter feed and pellet feed need to be agglomerated in the sinter plant and then loaded into the blast furnace, to produce pig iron. The production of 1.0 tonne of pig iron requires about 1.7 tonnes of iron ore.

Iron ore consumption in Gerdau mills in Brazil amounted to 7.6 million tonnes in 2014, partially supplied by mining companies adjacent to the steel plants and partially supplied by Gerdau s mines.

Other Inputs

In addition to scrap, pig iron, sponge iron and iron ore, Gerdau s operations use other inputs to produce steel such as ferroalloys, electrodes, furnace refracting materials, oxygen, nitrogen and other industrial gases and limestone, albeit in smaller amounts. Additional inputs associated with the production of pig iron are thermal-reducer, which is used in blast furnace mills, and natural gas, which is used at the DRI unit.

Ouro Branco mill s important raw materials and inputs also include solid fuels, comprising the metallurgical coal, used in the production of coke and also for the blast furnace pulverized injecting, this last one providing increase in productivity and consequently reduction in the final cost of pig iron. Besides the metallurgical coal, the Company also uses the anthracite, solid fuel used in the production of sinter. The gas resulting from the production of coke and pig iron are reused for generation of thermal energy that can be converted in electric energy for the mill.

Gerdau has three coke production units in Colombia with annual production capacity of 550,000 tonnes. In 2013, it consolidated the supply of Colombian coking coal and began to develop coal for injection processes, both of which are used at the Ouro Branco mill. Also in 2013, it started to develop new solid fuels customized at this unit, specific cokes for testing at plants equipped with smaller blast furnaces that traditionally use charcoal as fuel, and coals and cokes for other applications in the market.

The North American operations also use additional inputs. Various domestic and foreign companies supply other important raw materials or operating supplies required for the business, including refractory materials, ferroalloys and graphite electrodes that are readily available in the open market. Gerdau North America Business Operation has obtained adequate quantities of these raw materials and supplies at competitive market prices. The Company is not dependent on any one supplier as a source for any particular material and believes there are adequate alternative suppliers available in the marketplace if the need to replace an existing one arises.

Energy Requirements

Steel production is a process that consumes large amounts of electricity, especially in electric arc mills. Electricity represents an important role in the production process, along with natural gas, which is used mainly in furnaces to re-heat billets in rolled steel production.

In Brazil, electricity is currently supplied to the Company s industrial units under two types of contracts:

- Contracts in the Regulated Contractual Environment in which the Company is a Captive Consumer are used at the following units: Charqueadas, Usiba and Açonorte. These involve state-owned companies or holders of government concessions. In these contracts, prices are defined by the National Electric Power Agency (ANEEL).

- Contracts executed in the Free Market Environment, in which Gerdau is a Free Consumer, are used by the following units: Araçariguama, Cosigua, Cearense, Ouro Branco, Divinópolis, Barão de Cocais, Riograndense, Araucária, São José dos Campos, Pindamonhangaba and Mogi das Cruzes. The load of these units is served by a portfolio of contracts and by self-generation. The power supply contracts are entered into directly with generation and/or distributing companies at prices that are pre-defined and adjusted in accordance with conditions pre-established by the parties.

The Company currently holds the following power generation concessions in Brazil:

- Dona Francisca Energética S.A. (DFESA) operates a hydroelectric power plant with nominal capacity of 125 MW located between Nova Palma and Agudo, Rio Grande do Sul State (Brazil). Its corporate purpose is to operate, maintain and maximize use of the energy potential of the Dona Francisca Hydroelectric Plant. DFESA participates in a consortium

(Consórcio Dona Francisca) with the state power utility Companhia Estadual de Energia Elétrica (CEEE). The shareholders of DFESA are Gerdau S.A. (51.8%), COPEL Participações S.A (23.0%), Celesc (23.0%), and Desenvix (2.2%).

- Caçu and Barra dos Coqueiros hydroelectric power plants, located in the state of Goiás (Brazil), with total installed capacity of 155MW and started its operations in 2010, with all power made available to the units located in Brazil s Southeast.

- Gerdau also holds the concession to implement São João Cachoeirinha Hydroelectric Plant Complex located in Paraná state. The complex will have total installed capacity of 105 MW. It is currently waiting for the granting of the environmental licenses.

The terms of the aforementioned generation concession agreements are for 35 years as of the signature of the agreement. As such: UHE Dona Francisca expires in 2033 and UHEs Caçu and Barra dos Coqueiros and UHEs São João - Cachoeirinha expire in 2037.

The supply of natural gas to all Brazilian units is regulated and performed under long-term contracts. Barão de Cocais and Divinópolis units do not have access to natural gas supplies.

In Spain, the energy contract comes into force in January 2014 and is valid for 2015 too. The price paid for electric power is based on the spot market, with Gerdau having the option to lock in prices. Spain is currently discussing its regulatory framework, given the financial deficits generated by its power industry. The natural gas contract also comes into force in January 2014 and is valid for 2015.

In the United States, there are essentially two types of electricity markets: regulated and deregulated. In the regulated market, contracts are approved by Public Utility commissions and are subject to an approved rate of return. These regulated tariffs are specific to local distributors and generally reflect the average fuel costs of the distributor. In deregulated markets, the price of electricity is set by the marginal resource and fluctuates with demand. Natural Gas in the United States is completely deregulated. The U.S. energy market is benefiting from the increased exploration of shale gas, which is driving down prices of both electricity and natural gas.

In Colombia, the power purchase agreement was renewed in July 2013 at predetermined prices valid for 3 years and 6 months. The natural gas agreements were renewed in late 2013 and are valid in part until 2019 and in part until 2021.

In Chile electricity is purchased under a long-term agreement. This agreement will finish on 2017, and the transmission electricity agreement will finish in 2034. The plant receives CNG (Compressed Natural Gas) for major part of their needs and the supply is done through piping lines in Renca and Colina plants.

In Uruguay, electricity is purchased under agreements renewed automatically on an annual basis from the state-owned utility UTE. Natural gas is purchased from Montevideo Gas with prices set by the Argentinean export tariff agreement (fuel oil as substitute). During 2014, the plant operated mostly on fuel oil, due to competitive reasons.

In Peru, has a current electricity contract until December 2017. The plant receives CNG (Compressed Natural Gas) by trucks and then is decompressed and distributed through internal pipeline to production processes.

Argentina uses natural gas (liquefied petroleum gas) as substitute. The natural gas purchase agreement was renewed for another year. In 2008, Gerdau Sipar entered into a long-term agreement to supply the new mill s power requirements.

In the Dominican Republic, a new power purchase agreement was secured in July 2014 (valid for three years), with new power factor conditions. Since 2011, the unit receives liquefied natural gas (LNG) delivered by truck.

In Mexico, electricity is purchased under agreements regulated by the state-owned utility Companía Federal de Electricidad (CFE). The natural gas agreements are valid for 1 year and are renewed automatically, with prices indexed by the Nymex.

In India, electricity is supplied by the distribution company and by self-generation. In the event of rationing, the power deficit may be acquired through power swap agreements (short-term contracts) or bilateral agreements.

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Production Output

Gerdau S.A. Consolidated annual production (million tonnes)	Year ended December 31, 2014	2013	2012
Crude steel production	18,028	18,009	18,920
Rolled steel production	16,026	15,502	15,824
Iron Ore production	7,623	5,586	4,755

Technology and Quality Management

All Gerdau mills have a Quality Management System supported by a wide array of quality control tools. Product development projects are headed by specialists who use quality tools such as Six Sigma , a set of statistical methods for improving the assessment of process variables, and the concept of Quality Function Deployment , a methodology through which technicians can identify and implement the customer requirements.

Given this level of quality management, 45 mills are ISO 9001 or ISO TS 16949 certified as well as a sort of products and laboratories certification according demands. In general, production, technical services and quality teams are responsible for developing new products to meet customer and market needs.

Gerdau uses a Quality Management System developed in house that applies tests for product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies also exist to assure the manufactured product high standards of quality. Gerdau s technical specialists do planned visits, some are randomly selected and some are scheduled visits, to its customers to check on the quality of the delivered products in order to guarantee the final user satisfaction for products purchased indirectly.

The Knowledge Management Portal is used to share information among all steel mills seeking performance improvements and leverage of process knowledge supported by Communities of Practice and technical specialists.

Due to the specialized nature of its business, the Gerdau special steel mills are constantly investing in technological upgrading and in research and development. These mills are active in the automotive segment and maintain a technology department (Research and Development) responsible for new products and the optimization of existing processes.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment that Gerdau uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment. Gerdau has technology transfer and benchmarking agreements with worldwide recognized performance companies.

As is common with mini-mill steelmakers, Gerdau usually acquires technology in the market rather than develops new technology through intensive process research and development, since steelmaking technology is readily available for purchase.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business. See item Information on the Extent of the Company s Dependence for further details.

Sales Terms and Credit Policy

The Company s Brazilian sales are usually made on a 21/28-day settlement CIF (Cost, Insurance and Freight) basis. Comercial Gerdau, the retail arm of Gerdau in Brazil, sells on a 31-day settlement basis, mainly CIF. Brazilian customers are subject to a credit approval process. The concession of credit limits is controlled by a corporate-level system (ECC) that can be accessed by all sales channels. The credit and collection department is responsible for evaluating, determining and monitoring credit in accordance with the credit limit policy. This policy includes the active participation of staff from the various sales channels. At Comercial Gerdau, in particular, the criteria for retail sales also include practices such as the use of credit card services. Gerdau exports are guaranteed via letters of credit and/or pre-payment before the product is shipped. Exports to Gerdau s subsidiaries may be sold on credit at market interest rates.

Gerdau North American credit terms to customers are generally based on customary market conditions and practices. The Company´s North American business is seasonal, with orders in the second and third quarters tending to be stronger than those in the first and fourth quarters, primarily due to weather-related slowdowns in the construction industry.

The Company´s Special Steel Operation in Spain has a Risk Committee that is responsible for analyzing customer credit. The United States and Brazil Special Steel Operations have their own credit departments for costumer s credit analyses.

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As a result of these policies, the Company s provision for doubtful accounts has been at low levels. On December 31, 2014, provision for doubtful accounts was 2.2% based on gross account receivables as per Note 5 to the Consolidated Financial Statements, on December 31, 2013 was 2.4% and on December 31, 2012 this provision was 2.4% of gross account receivables. Gerdau has improved its credit approval controls and enhanced the reliability of its sales process through the use of risk indicators and internal controls.

Insurance

The Company maintains insurance coverage in amounts that it believes suitable to cover the main risks of its operating activities. The Company has purchased insurance for its integrated mill Ouro Branco to insure against operating losses, which covers amounts up to approximately US$ 5.0 billion (R$ 11.0 billion as of April 30, 2014), including material damage to installations (US$ 4.2 billion) and losses of gross revenues (US$ 800 million), such as halts in production due to business interruptions caused by accidents for a period up to twelve months. The Company s current insurance policy relating to the Ouro Branco mill remains effective until April 30, 2015. The Company s mini-mills are also covered under insurance policies which insure against certain operational losses resulting from business interruptions.

Trade Investigations and Government Protectionism

Over the past several years, exports of steel products from various companies and countries, including Brazil, have been subject to antidumping, countervailing duties and other trade-related investigations in importing countries. Most of these investigations resulted in duties limiting the investigated companies ability to access such import markets. Until now, however, these investigations have not had a significant impact on the Company s export volumes.

Material effects of government regulation on the Company s activities

The Company s steel production activities are not subject to special authorizations other than the licenses and permits typical to the industry. The Company maintains a good relationship with the government agencies responsible for issuing common authorizations and does not have any history of problems in obtaining them.

Gerdau Aços Longos S.A. holds the concession for the Caçú and Barra dos Coqueiros hydroelectric plants, which have aggregate installed capacity of 155MW and are located in the southeastern region of the State of Goias between the cities of Caçi and Cachoeira Alta, as per concession contract number 089/2002.

Chopim Energia S.A. (50% direct and 50% through Itaguaí Comércio, Importação e Exportação Ltda.) holds the concession for the São João and Cachoeirinha Energy Complex, which corresponds to the São João and Cachoeirinha hydroelectric plants, which have aggregate installed capacity of 105 MW and are located in the southeastern region of the State of Paraná between the cities of Honório Serpa and Clevelândia, as per concession contract number 016/2002.

Gerdau S.A. holds an interest of 51.82% in the company Dona Francisca Energética S.A. - DFESA, which, in consortium with Companhia Estadual de Energia Elétrica CEEE, holds the concession for the Dona Francisca Hydroelectric Plant located between the cities of Agudo and Nova Palma in the State of Rio Grande do Sul, which has installed capacity of 125 MW, as per concession contract 188/1998.

Gerdau Açominas S.A. is authorized to operate the Açominas Thermo Electric Power Plant (103 MW) located in its industrial complex in the city of Ouro Branco, as authorized by Administrative Rule (*Portaria*) 275/MME of February 23, 1984 and subsequent resolutions.

Activities involving the generation of electric power are subject to the rules and regulations of the National Electric Power Agency (ANEEL) and to oversight by the agency. Operating Licenses, which are issued by the respective state environmental departments or agencies, are required to operate the hydroelectric plants, which must also comply with the obligations of the respective concession contracts. All projects in which the Company participates are functioning perfectly, with valid licenses and no objections to their operations. The exception is Chopim, whose construction has yet to begin.

The commercial operation of ports is subject to authorization by the federal government, as regulated by Federal Law 12,815 of June 5, 2013. Gerdau has two Private Port Terminals Outside of Organized Port Areas located in Vitória, ES and Salvador, BA, which are known, respectively, as the Praia Mole Private Port and Mixed Use Terminal and the Gerdau Maritime Terminal. The former, with Adhesion Contract 034/95, was signed on February 18, 1995, with duration of 25 years, which may be extended successively for equal periods, as provided for by law. There is no specific description of cargoes, with authorization for the handling and/or storage in the TERMINAL of own and third-party cargo destined or originating from water transportation. The latter, with Adhesion Contract 064/98, was signed on November 17, 1995, with duration of 25 years, which may be extended successively for equal periods, as provided for by law, with the following cargo authorized: pelletized iron ore, natural iron ore, pig iron, scrap metal,

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manganese ore, coke, copper-alumina concentrate, blast furnace slag, clinker, iron ore, green petroleum coke, fertilizers, anthracite, barite and coal.

This authorization is subject to oversight by the National Water Transportation Agency (ANTAQ) and, alternatively, by the Special Department of Ports (SEP).

Gerdau s mining explorations in Brazil are subject to the prevailing rules of the Brazilian Mining Code and un-codified mining legislation, with mining exploration substantiated by mining property rights and titles. Gerdau acquired the surface of the areas corresponding to the respective mining rights, as well as all other mining property rights and titles, through an Asset Sale and Rights Assignment Agreement entered into between Gerdau Açominas S.A. and Companhia Paraibunas de Metais, Siderúrgica Barra Mansa S.A., Votorantim Metais Ltda. and Votorantim International Holding N.V. on May 19, 2004. The Company s mining explorations are subject to the limitations imposed by Brazil s Federal Constitution and Mining Code and by the laws and regulations pertaining to exploration activities. The National Department of Mineral Production DNPM - is responsible for concessions, regulations and oversight. Gerdau holds the ownership of all land and all mining property rights and titles for the mines it currently explores, as well as the respective environmental licenses to commercially operate the mines located in the cities of Miguel Burnier, Várzea do Lopes and Gongo Soco in the Brazilian state of Minas Gerais. Brazil s Mining Code and Federal Constitution impose on companies that conduct exploration activities, such as us, requirements concerning, among other things, the manner in which mineral deposits are used, worker health and safety, environmental protection and restoration, pollution prevention and the health and safety of the local communities where the mines are located. The Mining Code also imposes certain notification and reporting requirements.

All mineral rights owned by Gerdau are duly registered in the DNPM, a federal Brazilian agency whose purpose is to promote planning and incentive activities for mineral exploitation and use of mineral resources, as well as overseeing geological, mineral, and mineral technology surveys, in addition to ensuring, controlling, and monitoring mining activities within the mining polygons. The mineral rights owned by Gerdau cover a total of 8,837.19 ha and the period of concessions is until the exhaustion of the deposits, on the condition that we perform legal requirements annually. The table below shows the DNPM processes owned by Gerdau:

Mining Right DNPM No	**CITY**	**LOCATION**
1978/1935	Barão de Cocais	GONGO SOCO
832620/2006	Ouro Preto	MIGUEL BURNIER
930600/2009	Ouro Preto	MIGUEL BURNIER
932705/2011	Itabirito	VARZEA DO LOPES
833209/2006	Ouro Preto - Ouro Branco	DOM BOSCO
724/1942	Ouro Preto - Ouro Branco	DOM BOSCO
832090/2005	Ouro Preto - Ouro Branco	DOM BOSCO
832044/2006	Ouro Branco	DOM BOSCO
830158/2007	Ouro Preto	DOM BOSCO
830159/2007	Ouro Preto	DOM BOSCO
830160/2007	Ouro Preto	DOM BOSCO
831640/2003	Ouro Preto	DOM BOSCO
830475/2007	Ouro Preto	DOM BOSCO

In Colombia there are some mining operations, which concessions are governed by the Government and ruled by regulations contained in the Mining Code (Law 685 of 2001 and Law 1382 of 2010). Under the concession rights given to the Company, exploration and exploitation projects of coking coal can be developed. The mines are located at Tausa, Cundinamarca; Cucunubá, Cundinamarca; Samacá and Ráquira, Boyacá; and Cúcuta, north of Santander. The period of the concessions is 30 years and it can be extended for an additional 30 years.

Environmental requirements are also part of the rules that have to be fulfilled in order to develop the projects, in addition to issues relating to the payment of royalties and to the priority security of the personnel (mining).

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C. ORGANIZATIONAL STRUCTURE

The Company s operational structure (including its main operating subsidiaries engaged in steel production) was as follows on December 31, 2014:

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The table below lists the significant consolidated subsidiaries of Gerdau on December 31, 2014, 2013 and 2012:

				Equity Interests Total capital (*)
Consolidated company	**Country**	**2014**	**2013**	**2012**
Gerdau GTL Spain S.L.	Spain	100.00	100.00	100.00
Gerdau Internacional Empreendimentos Ltda	Brazil	100.00	100.00	100.00
Gerdau Ameristeel Corporation and subsidiaries (1)	USA/Canada	100.00	100.00	100.00
Gerdau Açominas S.A.	Brazil	95.85	95.22	93.98
Gerdau Aços Longos S.A. and subsidiaries (2)	Brazil	94.34	93.48	93.97
Gerdau Steel Inc.	Canada	100.00	100.00	100.00
Gerdau Holdings Inc. and subsidiary (3)	USA	100.00	100.00	100.00
Paraopeba - Fixed-income investment fund (4)	Brazil	88.74	60.09	53.10
Gerdau Holdings Europa S.A. and subsidiaries (5)	Spain	100.00	100.00	60.00
Gerdau América Latina Participações S.A.	Brazil	94.22	94.22	94.22
Gerdau Chile Inversiones Ltda. and subsidiaries (6)	Chile	99.99	99.99	99.99
Gerdau Aços Especiais S.A.	Brazil	97.17	96.74	95.94
Gerdau Hungria Holdings Limited Liability Company and subsidiaries (7)	Hungary	100.00	100.00	99.00
GTL Equity Investments Corp.	British Virgin Islands	100.00	100.00	100.00
Empresa Siderúrgica del Perú S.A.A. - Siderperú	Peru	90.03	90.03	86.66
Diaco S.A. and subsidiary (8)	Colombia	99.71	99.71	99.57
Gerdau GTL México, S.A. de C.V. and subsidiaries (9)	Mexico	100.00	100.00	100.00
Seiva S.A. - Florestas e Indústrias	Brazil	97.73	97.73	97.73
Itaguaí Com. Imp. e Exp. Ltda.	Brazil	100.00	100.00	100.00
Gerdau Laisa S.A.	Uruguai	100.00	100.00	100.00
Sipar Gerdau Inversiones S.A.	Argentina	99.99	99.99	99.99
Sipar Aceros S.A. and subsidiary (10)	Argentina	99.96	99.96	99.96
Siderúrgica del Pacífico S.A.	Colombia	98.32	98.32	98.32
Cleary Holdings Corp.	Colombia	100.00	100.00	100.00
Sizuca - Siderúrgica Zuliana, C. A.	Venezuela	100.00	100.00	100.00
GTL Trade Finance Inc.	British Virgin Islands	100.00	100.00	100.00
Gerdau Trade Inc.	British Virgin Islands	100.00	100.00	100.00
Gerdau Steel India Ltd.	India	98.83	98.38	94.69

(*) The voting capital is substantially equal to the total capital. The interests reported represent the ownership percentage held directly and indirectly in the subsidiary.

(1) Subsidiaries: Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.

(2) Subsidiary: Gerdau Açominas Overseas Ltd.

(3) Subsidiary: Gerdau MacSteel Inc.

(4) Fixed-income investment fund managed by Banco JP Morgan S.A..

(5) Subsidiaries: Gerdau Holdings Europa S.A. y CIA., Sidenor y Cia, Sociedad Colectiva, Gerdau I+D Europa., Gerdau Aceros Especiales Europa.

(6) Subsidiaries: Aza Participaciones S.A., Industrias del Acero Internacional S.A., Gerdau Aza S.A., Distribuidora Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A., Matco Instalaciones Ltda

(7) Subsidiaries: LuxFin Participation S.L., Bogey Holding Company Spain S.L. and Bogey Servicios Corporativos S.L..

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(8) Subsidiaries: Laminados Andinos S.A. and Cyrgo S.A..

(9) Subsidiaries: Sidertul S.A. de C.V. and GTL Servicios Administrativos México, S.A. de C.V..

(10) Subsidiary: Siderco S.A.

The Company s investments in Bradley Steel Processor and MRM Guide Rail in North America, in which Gerdau Ameristeel holds a 50% stake in the total capital, the investments in Armacero Industrial y Comercial Limitada in Chile, in which the Company owns a 50% stake, the investments in Gerdau Metaldom Corp. in the Dominican Republic in which the Company owns a 45% stake, the investments in Corporación Centroamericana del Acero S.A. in the Guatemala, in which Gerdau has a 30% stake, the investment in Corsa Controladora, S.A. de C.V. in Mexico, in which Gerdau has a 49% stake, the investment in Corsa Controladora, S.A.P.I de C.V. in Mexico, in which Gerdau has a 50% stake and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51,82% stake are accounted in the Company s financial statements using the equity method (for further information see Note 3 Consolidated Financial Statements).

The operating companies that are fully consolidated or accounted according to the equity method in the financial statements of Gerdau S.A. are described below:

Gerdau Aços Longos S.A. - This company produces common long steel and has 10 mills distributed throughout Brazil and annual installed capacity of 4.6 million tonnes of crude steel. This company also sells general steel products and has 89 steel distribution centers located throughout Brazil.

Gerdau Açominas S.A. - Açominas owns the mill located in the state of Minas Gerais, Brazil. The Ouro Branco mill is Gerdau s largest unit, with annual installed capacity of 4.5 million tonnes of crude steel, accounting for 49.5% of Gerdau s crude steel output in the Brazil Business Operation.

Gerdau Ameristeel Corporation - Gerdau Ameristeel has annual capacity of 10.0 million tonnes of crude steel and 9.1 million tonnes of rolled products. The Company is one of the largest producers of long steel in North America. Gerdau Ameristeel subsidiaries are Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel and, Chaparral Steel Company.

Gerdau Aços Especiais S.A. - This company is headquartered in Charqueadas in the Brazilian state of Rio Grande do Sul and has consolidated annual installed capacity of 430,000 tonnes of crude steel and 465,000 tonnes of rolled products.

Gerdau Aceros Especiales Europa This company is a special steel producer and has four units in Spain with combined annual production capacity of 1.1 million tonnes of crude steel and 1.1 million tonnes of rolled products.

Gerdau MacSteel Inc. This company is the largest special steel producer in U.S., has three units and combined annual production capacity of 1.3 million tonnes of crude steel and 1.2 million tonnes of rolled products.

Gerdau Laisa S.A. - In 1980, the Company acquired the Laisa mini-mill in Uruguay. Gerdau Laisa is the one of largest long steel producers in Uruguay and has annual installed capacity of 100,000 tonnes of crude steel and 90,000 tonnes of rolled products.

Gerdau Chile Inversiones Ltda. - The company has two units in Chile with combined annual production capacity of 520,000 tonnes of crude steel and 530,000 tonnes of rolled steel.

Sipar Gerdau Inversiones S.A. - Sipar, through its operational subsidiary Sipar Aceros S.A., entered the Argentinean market in December 1997 and has annual installed capacity of 263,000 tonnes of rolled products.

Diaco S.A. - Diaco is one of the largest producers of steel and rebar in Colombia and has annual installed capacity of 854,000 tonnes of crude steel and 764,000 tonnes of rolled products.

Empresa Siderúrgica del Perú S.A.A. - Acquired in 2006, Siderperú is a long steel producer with annual installed capacity of 650,000 tonnes of crude steel and 520,000 tonnes of rolled steel.

Gerdau GTL México, S.A. de C.V. - The subsidiary of this company is a long steel producer located in the metropolitan area of Mexico City with annual installed capacity of 500,000 tonnes of crude steel and 400,000 tonnes of rolled products.

Sizuca - Siderúrgica Zuliana, C. A. - In June 2007, Gerdau acquired Sizuca - Siderúrgica Zuliana located in Ciudad Ojeda, Venezuela. Sizuca owns a mini-mill that produces concrete reinforcement bars. Sizuca has annual installed capacity of 250,000 tonnes of crude steel and 170,000 tonnes of rolled products.

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Corsa Controladora, S.A. de C.V. - In 2008, the Company acquired a 49% stake in Corsa Controladora, S.A. de C.V. (Mexico). Corsa Controladora owns 100% of the capital of Aceros Corsa, S.A. de C.V. and its distributors. Located in the metropolitan area of Mexico City, Corsa is a mini-mill that produces long steel (light merchant bars).

Gerdau Metaldom Corp. - In 2014, the Company completed the merger of its associate Multisteel Business Holdings Corp. with the Dominican company Metaldom, originating the jointly-controlled entity Gerdau Metaldom Corp., which will produce long and flat steel for the areas of civil construction, industrial and agricultural, and also scrap processing operations and PVC pipes, with over one million tons/year of installed capacity. As a result of the merger, the Company has contributed its interest of 79.97% on the associate Multisteel Business Holdings Corp. into the newly formed entity Gerdau Metaldom, in exchange of 45% interest on Gerdau Metaldom Corp. This transaction was recorded on fair value basis , which was substantially equivalent to the book value of the previous investment.

Corporación Centroamericana del Acero S.A. - Strategic partnership entered into with Corporación Centroamericana del Acero S.A., assuming a 30.0% stake in the capital of this company. The Company owns assets in Guatemala and Honduras as well as distribution centers in El Salvador, Nicaragua and Belize.

Gerdau Steel India Ltd. - Steel mill in Tadipatri, located in the southern part of Andhra Pradesh state in India. The crude steel capacity of this unit is 250,000 tonnes and 300,000 of rolled steel capacity.

Cleary Holdings Corp. - Cleary Holdings Corp controls a metallurgical coke producer and coking coal reserves in Colombia.

D. PROPERTY, PLANT AND EQUIPMENT

Facilities

Gerdau s principal properties are for the production of steel, rolled products and drawn products. The following is a list of the locations, capacities and types of facilities, as well as the types of products manufactured at December 31, 2014:

	LOCATION		INSTALLED CAPACITY (1,000 tonnes)				
PLANTS	**COUNTRY**	**STATE**	**PIG IRON/ SPONGE IRON**	**CRUDE STEEL**	**ROLLED PRODUCTS**	**EQUIPMENT**	**PRODUCTS**
BRAZIL OPERATION			**5,252**	**9,099**	**5,989**		
Açonorte	Brazil	PE		265	242	EAF mini-mill, rolling mill, drawing	Rebar, merchant bars, wire rod, drawn

						mill, nail and clamp factory	products and nails
Barão de Cocais	Brazil	MG	330	330	196	Integrated/blast furnace, LD converter and rolling mill	Merchant bars
Cearense	Brazil	CE		198	161	EAF mini-mill, rolling mill	Rebar and merchant bars
Cosigua	Brazil	RJ		932	1,414	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Divinópolis	Brazil	MG	430	570	460	Integrated/blast furnace, EOF converter and rolling mill	Rebar and merchant bars
Guaíra*	Brazil	PR		540		EAF mini-mill	Billet
Riograndense	Brazil	RS		450	495	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails

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Usiba*	Brazil	BA		495	397	Integrated with DRI, EAF mini-mill, rolling mill, drawing mill	Rebar, merchant bars, wire rod and drawn products
São Paulo	Brazil	SP		820	600	EAF mini-mill, rolling mill	Billets, rebars and coil rebar
Contagem	Brazil	MG				Blast furnace	Pig iron
Sete Lagoas	Brazil	MG	132			Blast furnace	Pig iron
Ouro Branco	Brazil	MG	4,360	4,500	2,026	Integrated with blast furnace, LD converter and rolling mills	Billets, blooms, slabs, wire rod, heavy structural shapes and HRC
NORTH AMERICAN OPERATION				**9,972**	**9,087**		
Beaumont	USA	TX		600	730	EAF mini-mill, rolling mill	Wire rod
Calverty City	USA	KY			300	Rolling Mill	Merchant bars, medium structural channel and beams
Cambridge*	Canada	ON		330	290	EAF mini-mill, rolling mill	Rebar, merchant bars
Cartersville	USA	GA		840	580	EAF mini-mill, rolling mill	Merchant bars, structural shapes, beams
Charlotte	USA	NC		370	325	EAF mini-mill, rolling mill	Rebar, merchant bars
Jackson	USA	TN		610	540	EAF mini-mill, rolling mill	Rebar, merchant bars
Jacksonville	USA	FL		730	620	EAF mini-mill, rolling mill	Rebar, merchant bars
Knoxville	USA	TN		520	550	EAF mini-mill, rolling mill	Rebar
Manitoba - MRM	Canada	MB		430	360	EAF mini-mill, rolling mill	Special sections, merchant bars, rebar
Sayreville	USA	NJ		730	600	EAF mini-mill, rolling mill	Rebar
St. Paul	USA	MN		620	420	EAF mini-mill, rolling mill	Rebar, merchant bars, special bars (SBQ) and round bars
Whitby	Canada	ON		900	840	EAF mini-mill, rolling mill	Structural shapes, rebar, merchant bars
Wilton	USA	IA		320	320	EAF mini-mill, rolling mill	Rebar and merchant bars
Midlothian	USA	TX		1,500	1,449	EAF mini-mill, rolling mill	Rebar, merchant bars and beams
Petersburg	USA	VA		1,000	700	EAF mini-mill, rolling mill	Merchant bars and beams
Rancho Cucamonga	USA	CA		472	463	EAF mini-mill, rolling mill	Rebar
LATIN AMERICAN OPERATION			**400**	**2,874**	**2,737**		
Chile	Chile			520	530	EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod, nails, wire and mesh.

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Uruguay	Uruguay			100	90	EAF mini-mill, rolling mill	Rebar, merchant bars and mesh
Colombia	Colombia			854	764	EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod, shapes and mesh
Argentina	Argentina				263	Rolling mill, drawing mill	Rebar, merchant bars and mesh
Peru	Peru		400	650	520	Blast Furnace, EAF mini-mill, rolling mill	Rebar and merchant bars
Venezuela	Venezuela			250	170	EAF mini-mill, rolling mill	Rebar
Mexico	Mexico			500	400	EAF mini-mill, rolling mill	Rebar, merchant bars and beams
SPECIAL STEEL OPERATION			**275**	**4,059**	**4,576**		
Pindamonhangaba	Brazil	SP		620	1.188	EAF mini-mill, rolling mill, finishing and foundry	Bars, wires, wire rod, finished and rolled bar, rolling mill rolls.
Mogi das Cruzes	Brazil	SP		375	264	EAF mini-mill, rolling mill and finishing	Bars, special profiles
Charqueadas	Brazil	RS		430	465	EAF mini-mill, rolling mill and finishing	Bars, special profiles, wires, wire rod, cold finished bar
Basauri	Spain			820	372	EAF mini-mill, rolling mill and finishing	Special bars and cold finished bars
Reinosa	Spain			240	161	EAF mini-mill, rolling mill, finishing and foundry	Cold finished bars, rolling mill rolls and forged pieces.
Azkoitia	Spain				397	Rolling mill and finishing	Bars, special profiles and cold finished bars
Vitória	Spain				200	Rolling mill and finishing	Wire rod and cold finished bars
Fort Smith	USA	AR		474	463	EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
Jackson	USA	MI		299	276	EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
Monroe	USA	MI		551	490	EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
India	India	AP	275	250	300	Integrated/blast furnace, converter and rolling mill	Pig iron, billets and rolled bars
GERDAU TOTAL			**5,927**	**26,004**	**22,389**		

*Temporarily not in use.

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While electric arc furnace (EAF) mills produce crude steel from raw materials such as steel scrap or pig iron, a mill with a blast furnace or direct reduction iron (DRI) produces pig iron or sponge iron for use in the production of crude steel, with iron ore and natural gas being the main raw materials.

Mining Assets

Iron ore mines

Gerdau s activities related to iron ore mines began after the acquisition of the mining rights of Grupo Votorantim, located in the municipalities of Ouro Preto (Miguel Burnier district), Itabirito and Barão de Cocais, in 2004. These areas are located within the iron producing region in the state of Minas Gerais, Brazil, which is one of the most prominent mineral provinces in Brazil, as illustrated in the figure below.

Ever since this initiative, and with an iron ore consumption rate of approximately 9.0 million tonnes per annum required by its steel production units located in Ouro Branco, Barão de Cocais, Divinópolis and Sete Lagoas, in the State of Minas Gerais, Gerdau s supply is partially handled by mining companies along with steel plants, and the mines owned by the company.

Focused on ensuring its iron ore self-sufficiency within the state of Minas Gerais, and searching for the opportunity to add value to its business by the use of its own mineral resources, Gerdau is currently conducting surveys to assess and implement expansions projects of its mining operations in order to establish itself as a player in the global iron ore market.

Gerdau s mining location

Current iron ore production units, as well as any future units, are or will be primarily comprised of open pit mines, processing plants, waste piles, tailings dams, and logistics and operational support infrastructure.

Current and future iron ore production units are grouped as follows:

- Miguel Burnier/Dom Bosco Complex: encompasses the mines located in Miguel Burnier, as well as the Dom Bosco mines;
- Várzea do Lopes Complex;
- Gongo Soco. There are no mining activities in this location.

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The table below shows the payments made to the Brazilian government related to resource extractions, related to 2014.

	CFEM (Financial Compensation for Exploitation of Mineral Resources)		TFRM (Inspection Fee for Mineral Resources)	
Miguel Burnier	R$	8,547 thousand	R$	1,920 thousand
Várzea do Lopes	R$	9,975 thousand	R$	826 thousand

Financial Compensation for Exploitation of Mineral Resources (CFEM)

In iron ore trading, the Financial Compensation for Exploitation of Mineral Resources (CFEM) is calculated based on the net amount obtained from the sale of mineral products. Net sales revenue is understood as the amounts received from the sale of mineral products after deducting the taxes (ICMS, PIS/COFINS) levied on the sale as well as the expenses with transport, insurance and freight.

When the mineral substance is consumed, manufactured or processed, the CFEM is always applicable after the last processing stage adopted and before its manufacturing.

The rate of CFEM applicable to iron ore is 2.0%.

Inspection Fee for Mineral Resources (TFRM)

The event triggering the TFRM is the sale of the extracted mineral or ore or its transfer between facilities owned by the same person in a different state of Brazil or abroad. The fee is paid by the natural or legal persons authorized to research, extract, explore or use mineral resources for any purpose.

The amount of TFRM corresponds to forty one hundredths (0.40) of the Fiscal Unit of the State of Minas Gerais (UFEMG) in force on the due date of the fee per tonne of mineral or crude ore extracted.

The amount payable as TFRM is calculated on a monthly basis based on the amounts of minerals or ore indicated on the tax documents for the sale or transfer to a facility owned by the same person located in a different state of Brazil or abroad. This amount in tonnes is then subjected to deductions consisting of the amounts of mineral or ore acquired, the amounts received from transfers between facilities owned by the same person located in another state of Brazil or abroad, and the amounts extracted from the area of the state of Minas Gerais under the scope of the Northeast Development Superintendence (SUDENE) and received in transfer from facilities owned by the same person.

If the number of tonnes calculated based on the sales and transfers in the period is less than the number of tonnes to be deducted, the difference will be carried forward for deduction in the subsequent calculation periods.

Location and Access

Miguel Burnier/Dom Bosco Complex

Miguel Burnier and Dom Bosco are located in the municipality of Ouro Preto, in the southwestern portion of the iron producing region in the state of Minas Gerais, Brazil, at approximately 80 km from Belo Horizonte and 5 km from Vila do Pires, on federal highway BR-040. The Dom Bosco Mine is located at approximately 11 km from the Miguel Burnier Mine. Vila do Pires is established off both sides of federal highway BR-040, north from the city of Congonhas. The mines are accessed through a 3 km-long non-paved road from the Miguel Burnier village.

Várzea do Lopes Complex

Várzea do Lopes is located in the Itabirito municipality, in the western portion of the iron producing region in the state of Minas Gerais, Brazil, and is established at approximately 46 km from downtown Belo Horizonte. Access to the mine from Belo Horizonte is through BR-040, in the direction towards Rio de Janeiro. Várzea do Lopes is located at approximately 20 km from Miguel Burnier, in a straight line.

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Gongo Soco

Gongo Soco is located in the municipality of Barão de Cocais, in the northwestern portion of the iron producing region in the state of Minas Gerais, Brazil, at approximately 110 km from Belo Horizonte, 8 km from the municipality of Barão de Cocais, and 170 km from Miguel Burnier. Access from Belo Horizonte is through BR-381/262 and MG-436 highways.

The figure below displays the locations of current and future iron ore production units and main accesses:

Geology and Mineralization

The iron ore sites owned by Gerdau are located in the Quadrilátero Ferrífero (QF), a large gold, iron, aluminum and manganese metallogenetic district covering approximately 7,000 km² in the southern portion of the São Francisco Craton.

The Quadrilátero Ferrífero consists of Archaean terrains (Rio das Velhas Supergroup) overlain by Proterozoic platform sediments (Minas and Espinhaço Supergroups). The current setting of the Quadrilátero Ferrífero results from two deformational events. The first represents an extensional event of Paleoproterozoic age (2100-1700 My) forming granitic-gneissic domes with syncline cores overlying the strata of the Rio das Velhas and Minas Supergroups. The second is a compressional event associated with the closure of the Africa/Brazil proto-ocean (650-500

My) located east of the QF. A west-oriented folding belt developed during this event.

- Miguel Burnier: The Miguel Burnier Complex is located in the southwestern portion of the QF, Serra do Dom Bosco. Itabirites and rocks of the Gandarela and Cauê Formations and rocks of the Piracicaba Group (Minas Supergroup) outcrop therein. The Serra Dom Bosco area is regionally characterized as a syncline, known as Dom Bosco Syncline. The typologies have been classified according to information collected during field visits, from internal reports, drill cores, thin plates, etc.

- Dom Bosco: The Dom Bosco Mine is also located in the southwestern portion of the QF, Serra do Dom Bosco. Itabirites and rocks of the Cauê Formation and Piracicaba Group (Minas Supergroup) outcrop therein.

- Várzea do Lopes: The Várzea do Lopes Complex is located in the western portion of the QF, Serra da Moeda. Itabirites and rocks of the Cauê Formation and Gandarela Formation (Minas Supergroup) outcrop therein.

- Gongo Soco: The geological mapping carried out characterized six pre-Cambrian lithologic units and a Tertiary/Quaternary unit. The pre-Cambrian units outcrop as a normal stratigraphic sequence, being the oldest sequence topographically located on the higher portion of the area, and the youngest on the lower portion, is located in the structural framework of the normal limb of the Gandarela Syncline.

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Facilities

Gerdau s mines and facilities are currently operated with the purpose of supplying its steel plants located in the state of Minas Gerais. However, the Company is striving to develop its mineral resources and achieve more significant operations. Planned and ongoing operations are described below. The Run of Mine (ROM) extracted from them is transported to ore treatment plants (OTP). In order to meet processing requirements, the following production units are considered:

- OTP 1: commissioned, in Miguel Burnier, since October 2004, with production capacity of 1.5 Mtpa (natural basis) of sinter feed. (wholly-owned by Gerdau);

- OTP 2: phase 1 started operations (start up and ramp up) in September 2013, in Miguel Burnier, with total production capacity of 5.6 Mtpa (natural basis) of lump ore, small lump ore, sinter feed, and pellet feed (wholly-owned by Gerdau). Currently, the Company is carrying out engineering studies (basic engineering) to an expansion of 5.0 Mtpa (natural basis) in order to process itabirites ore and produces fine concentrate (OTP 2 phase 2);

- OTP 3: Currently on stage of scoping study, with expected production capacity of 12.0 Mtpa (natural basis) of sinter feed and pellet feed.

Gerdau total production capacity today is 11.5 Mtpa, considering capacity from OTP 1, OTP 2 (phase 1), dry processing plants (1 and 2) and wet processing plant.

The main processing stages of the production units under operational or implementation phases are set forth in the table below.

OTP 1	**OTP 2 (phase 1)**
Crushing;	Crushing;
Classification screening;	Classification screening;
Grinding;	Deliming;
Jigging;	Filtering;
Spiral Concentration;	Dewatering screening;
Desliming;	Tailing thickening;
Column flotation;	
Filtering;	
Dewatering screening;	
Tailings and Concentrate thickening;	

The table below provides a summary of estimated capital costs for future projects (investments not yet approved by the Executive Committee are not listed), which will support production and logistics activities. This capex will be funded by the Company s own cash generations and planned bank financing.

Miguel Burnier + Várzea do Lopes	US$ (million)	Investment Phase
Mining	**69**	
Investments approved in 2014	36	Execution
Investments contemplated 2015-2017	33	Feasibility
Beneficiation	**149**	
Private road access - Várzea do Lopes to Miguel Burnier	137	Execution
Other Investments approved until 2014	4	Execution
Investments contemplated 2015-2017	8	Feasibility
TOTAL	**218**	

The table below illustrates estimated electrical power consumption in the processing plants.

OTP - Ore Treatment Plant	Consumption (kW)
OTP - 1	3,300
OTP 2	3,500

A summary of the water supply system for the processing facilities is provided in the table below. Indicated collection points present sufficient amounts of water to supply all covered facilities, in compliance with applicable legal criteria.

OTP - Ore Treatment Plant	Total Water with Recirculation (m3/h)	Make up (m3/h)	Distance of the OTP (km)	In take point
OTP - 1	650	150	4.0	Miguel Burnier River
OTP - 2	713	280	3.5	Soledade Lake

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Coal mines

The coal mines are located in Tausa, Cucunubá, Samacá, Ráquira and Cúcuta, Colombia. The use of these mineral resources as an input for our integrated mill (Ouro Branco) should contribute to the long term competitiveness of this unit. The Company does not currently consider any of these properties to be a material property for purposes of Industry Guide 7 and none of these properties has any known reserves.

Investment Programs

In fiscal year 2014, capital expenditure on fixed assets was R$ 2,266.7 million. Of this total, 40.0% was allocated to the operations in Brazil and the remaining 60.0% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Operation a total of R$ 907.6 million was invested in this operation for capital expenditure. The main highlight was the installation work of flat steel rolling mill (heavy plates) at Ouro Branco mill. Currently, the project is in the phase of installation of the metal structures of the buildings and electromechanical installation of the equipment.

North America Business Operation this business operation spent R$ 308.7 million for capital expenditure on fixed assets distributed throughout the units which compose this business operation. This amount was mainly spent for the maintenance of the production units.

Latin America Business Operation in 2014, the Latin American units spent R$ 320.5 million for capital expenditure on fixed assets distributed among the countries in which the units from this business operation are located. Part of this investment is being used to build a new melt shop in Argentina, which will have a capacity of 650,000 tonnes of steel per year.

Special Steel Business Operation the special steel units spent R$ 569.0 million in 2014 for capital expenditure. Part of this investment was to finalize the installation of the new special steel rolling mill at Monroe mill in the USA. Additionally, the Company concluded the installation of a new continuous casting in St. Paul in Minnesota (USA).

Iron Ore Business Operation the business operation spent R$ 160.9 million in 2014 for capital expenditure on fixed assets. This amount was mainly spent for the maintenance of the operation.

The disbursements in fixed assets planned for 2015 are estimated at R$ 1.9 billion, and include both strategic and maintenance investments. The table below shows the main projects for the years to come:

Investment Plan Main Projects	Location	Additional rolling capacity (1,000 tonnes)	Start-up
Brazil Business Operation			
Flat steel rolling mill (heavy plates) at Ouro Branco mill-MG	Brazil	1,100	2016
New melt shop at Riograndense mill-RS(1)	Brazil	650	2016
Latin America Business Operation			
New structural profile rolling mill in Mexico (Gerdau Corsa)(2)	Mexico	700	2015
New melt shop in Argentina	Argentina	650	2016
Special Steel Business Operation			
Coke plant and power generation plant in India mill	India		2015

(1) This capacity is not included in the consolidated figures since it is a joint venture.

(2) Replacement of the current melt shop (450,000 tonnes capacity).

Environmental Issues

Gerdau S.A is currently in compliance with environmental regulations. The Company also believes that there are no environmental issues that could affect the use of its fixed assets.

In 2014, Gerdau S.A. invested R$ 169.8 million in the improvement of its eco-efficiency practices and in technologies for the protection of the air, water and soil.

Environmental Regulation

In all of the countries in which the Company operates, it is subject to federal, state and municipal environmental laws and regulations governing air emissions, wastewater discharges and solid and hazardous waste handling and disposal. Its manufacturing

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facilities have been operating under the applicable environmental rules. The respective permits and licenses require the satisfaction of various performance standards, which are monitored by regulatory authorities. The Company employs a staff of experts to manage all phases of its environmental programs and uses outside experts where needed. The Company works to assure that its operations maintain compliance in all material respects with the applicable environmental laws, regulations, permits and licenses currently in effect. When Gerdau acquires new plants, it conducts an assessment of potential environmental issues and prepares a work plan in compliance with the local authorities.

The steel production process generates air and water emissions, as well as solid wastes, which may pose environmental hazards. The principal potential hazardous waste generated by current and past operations is electric arc furnace dust, a byproduct from the production of steel in electric arc furnaces. Gerdau installs baghouse filter systems in all facilities where it produces steel, which assures high levels of efficiency in terms of dust filtration and retention. The costs of collecting and disposing of electric arc furnace dust are expensed as operating costs when incurred. Environmental legislation and regulations at both the federal and state levels concerning electric arc furnace dust in any jurisdiction is subject to potential changes, which could increase the cost of compliance. The electric arc furnace dust generated by its current production processes is being collected, handled and disposed of in a manner that in all material respects meets all current federal, state and local environmental regulations.

In most countries, both federal and state governments have the power to enact environmental protection laws and issue regulations under such laws. In addition to those rules, the Company is also subject to municipal environmental laws and regulations. Under such laws, individuals or legal entities whose conduct or activities cause harm to the environment are usually subject to criminal and administrative sanctions, as well as any costs to repair the actual damages resulting from such harm.

Individuals are subject to penalties and sanctions that range from fines to imprisonment and for legal entities the suspension or interruption of its operations and prohibition to enter into any contracts with government agencies.

Government environmental protection agencies may also impose administrative sanctions on individuals and entities that fail to comply with environmental laws and regulations that include:

- fines;
- partial or total suspension of operations;
- obligations to provide compensation for recovery works and environmental projects;
- forfeiture of or restrictions on tax incentives and benefits;

- closing of establishments or enterprises; and

- forfeiture or suspension of participation in credit lines with official credit agencies.

The steel industry uses and generates substances that may damage the environment. The Company s management performs frequent surveys with the purpose of identifying potentially impacted areas and records based on best cost estimate. The amounts estimated for investigation, treatment and cleaning of potentially affected sites, totaling R$ 116,421thousands as of December 31, 2014 (R$ 23,025 thousands recorded in Current Liabilities and R$ 93,396 thousands recorded in Non-Current Liabilities) and R$ 105,663 thousands as of December 31, 2013 (R$ 15,149 thousands recorded in Current Liabilities and R$ 90,514 thousands recorded in Non-Current Liabilities). The Company used estimates and assumptions to determine the amounts involved, which can vary in the future, due to the final investigations and the determination of the actual environmental impact. See also Note 20 Environmental Liabilities.

As of December 31, 2014, the updated present value of the total remaining amount of Brazilian Environment Liabilities was estimated at R$ 65.5 million. Some of these areas have already been recovered and some areas are still being evaluated.

Gerdau Ameristeel and Macsteel estimate clean-up costs based on a review of the anticipated remedial activities to be undertaken at each of their respective known contaminated sites. Although the ultimate costs associated with such remedies are not precisely known, the Company has estimated the present value of the total remaining costs as of December 31, 2014 at approximately R$ 51 million, with these costs recorded as a liability in its financial statements.

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Brazilian Environmental Legislation

The Company s activities are subject to wide-sweeping Brazilian environmental legislation at the federal, state and municipal levels that govern, among other aspects, the dumping of effluents, atmospheric emissions and the handling and final disposal of dangerous waste, as well as the obligation to obtain operating licenses for the installation and operation of potentially polluting activities.

Brazilian environmental legislation provides for the imposition of criminal and administrative penalties on natural persons and legal entities that commit environmental crimes or infractions, as well as for the obligation to repair the environmental damage caused. Although the Company has never suffered any environmental penalties that could have a relevant impact on its business, potential environmental crimes or infractions could subject the Company to penalties that include:

- fines that at the administrative level could reach as high as R$50 million, depending on the violator s economic capacity and past record, as well as the severity of the facts and prior history, with the amounts potentially doubled or tripled in the case of repeat offenders;

- suspension of or interference in the activities of the respective enterprise; and

- loss of benefits, such as the suspension of government financing and the inability to qualify for public bidding processes and tax breaks.

In addition, strict liability is applicable to environmental crimes for both natural persons and legal entities. Environmental legislation also provides for disregarding the legal status of a company s controlling shareholder whenever such status represents an impediment to receiving restitution for environmental damages.

In the civil sphere, environmental damage results in joint and several liability as well as strict liability. This means that the obligation to repair the environmental damage may affect all those directly or indirectly involved, regardless of any proof of who is to blame. As a result, the hiring of third parties to intervene in its operations to perform such services as final disposal of solid waste does not exempts the Company from liability for any environmental damage that may occur.

North American Environmental Legislation

The Company is required to comply with a complex and evolving body of Environmental, Health and Safety Laws (EHS Laws) concerning, among other things, air emissions, discharges to soil, surface water and groundwater, noise control, the generation, handling, storage, transportation and disposal of toxic and hazardous substances and waste, the clean-up of contamination, indoor air quality and worker health and safety. These EHS Laws vary by location and can fall within federal, provincial, state or municipal jurisdictions.

Most EHS Laws are of general application but result in significant obligations in practice for the steel sector. For example, the Company is required to comply with a variety of EHS Laws that restrict emissions of air pollutants, such as lead, particulate matter and mercury. Because the Company s manufacturing facilities emit significant quantities of air emissions, compliance with these laws does require the Company to make investments in pollution control equipment and to report to the relevant government authority if any air emissions limits are exceeded. The government authorities typically monitor compliance with these limits and use a variety of tools to enforce them, including administrative orders to control, prevent or stop a certain activity; administrative penalties for violating certain EHS Laws; and regulatory prosecutions, which can result in significant fines and (in rare cases) imprisonment. The Company is also required to comply with a similar regime with respect to its wastewater. EHS Laws restrict the type and amount of pollutants that Company facilities can discharge into receiving bodies of waters, such as rivers, lakes and oceans, and into municipal sanitary and storm sewers. Government authorities can enforce these restrictions using the same variety of tools noted above.

The Company has installed pollution control equipment at its manufacturing facilities to address these emissions and discharge limits, and has an environmental management system in place designed to reduce the risk of non-compliance.

Environmental Permits

According to Brazilian environmental legislation, the proper functioning of activities considered effectively or potentially polluting or that in some way could cause environmental damage requires environmental licenses. This procedure is necessary for both the activity s initial installation and operating phases as well as for its expansion phases, and these licenses must be renewed periodically.

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The Brazilian Institute for the Environment and Renewable Resources (IBAMA) has jurisdiction to issue licenses for projects with national or regional environmental impacts. In all other cases, the state environmental agencies have jurisdiction and, in the case of local impact, the municipal agencies have jurisdiction.

Environmental licensing of activities with significant environmental impacts is subject to a Prior Environmental Impact Study and respective Environmental Impact Report (EIA/RIMA), as well as the implementation of measures to mitigate and compensate for the environmental impact of the project.

The environmental licensing process includes the issuance of three licenses: Pre-License (LP), Installation License (LI) and Operational License (LO). These licenses are issued in accordance with each phase of project implementation, and maintaining their validity requires compliance with the requirements established by the environmental licensing agency. The failure to obtain an environmental license, regardless of whether or not the activity is actually harming the environment, is considered an environmental crime and an administrative infraction, subjecting the violator to administrative fines, at the federal level (subject to being doubled or tripled in the case of repeat violations), and the suspension of operations. The Operational License (LO) must be renewed periodically.

The Company s operations currently comply with all legal requirements related to environmental licenses. However, any delay or refusal on the part of environmental licensing agencies to issue or renew these licenses, as well as any difficulty on its part to meet the requirements established by these environmental agencies during the course of the environmental licensing process, could jeopardize or even impair the installation, operation and expansion of new and current projects.

Areas of permanent forest preservation and legal reserves

Some activities of the Company, mainly those involving reforestation to produce thermal-reducer used in its industrial units, are subject to the Brazilian Forest Code.

The Code determines that certain areas, because of their importance for preserving the environment and water resources, be considered permanent preservation areas (APP). These include areas adjacent to rivers or natural or artificial reservoirs, and hilltops and hillside properties with an incline steeper than 45°. At Gerdau s forest units, permanent preservation areas are an integral part of the business and are protected in compliance with the law.

Moreover, depending on the region where the property is located, the Code requires rural land owners to restore and preserve between 20%, 35% or 80% of areas containing native vegetation. The maintenance of these percentages of native vegetation is important because it guarantees the preservation of the local natural vegetation, perpetuating the genetic resources and the biodiversity of each Brazilian biome. Gerdau maintains its Legal Reserve areas preserved and in accordance with governing legislation.

ITEM 4A. UNRESOLVED SEC STAFF COMMENTS

The Company has no unresolved comments from the staff of the U.S. Securities and Exchange Commission with respect to its periodic reports under the Securities Exchange Act.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of the Company s financial condition and operating results should be read in conjunction with the Company s audited consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 included in this Annual Report that have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as well as with the information presented under Presentation of Financial and Other Information and Selected Financial and Other Information of Gerdau .

The following discussion contains forward-looking statements that are based on management s current expectations, estimates and projections and that involve risks and uncertainties. The Company s actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in the sections Forward-Looking Statements and Risk Factors .

The primary factors affecting the Company s operating results include:

- Economic and political conditions in the countries in which Gerdau operates, specially Brazil and U.S.;
- The fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar;
- The cyclical nature of supply and demand for steel products both inside and outside of Brazil, including the prices for steel products;
- The Company s level of exports; and
- The Company s production costs.

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Brazilian Economic Conditions

The Company s results and financial position depend largely on the situation of the Brazilian economy, notably economic growth and its impact on steel demand, financing costs, the availability of financing and the exchange rates between Brazilian and foreign currencies.

Since 2003, the Brazilian economy has become more stable, with significant improvement in the main indicators. The continuity of the macroeconomic policies focused on tax matters, the inflation-targeting system, the adoption of a floating foreign exchange rate, the increase in foreign investment and compliance with international financial agreements, including the full repayment of debt with the International Monetary Fund, contributed to the improved economic conditions in Brazil.

In 2012, Brazilian GDP grew by 1.0% ($2.4 trillion Nominal GDP). Inflation, as measured by the IPCA index, stood at 5.8%. The average CDI rate in the year was 6.9%. The Brazilian *real* depreciated by 8.9% against the U.S. dollar, ending the year at R$2.04 to $1.00.

In 2013, Brazilian GDP grew by 2.3% ($ 4.8 trillion Nominal GDP). Inflation, as measured by the IPCA index, stood at 5.9%. The average CDI rate in the year was 9.8%. The Brazilian *real* depreciated by 14.6% against the U.S. dollar, ending the year at R$2.34 to $1.00.

In 2014, Brazilian GDP grew by 0.1% ($ 5.5 trillion Nominal GDP). Inflation, as measured by the IPCA index, stood at 6.4%. The average CDI rate in the year was 11.5%. The Brazilian *real* depreciated by 13.4% against the U.S. dollar, ending the year at R$2.66 to $1.00.

Inflation affects Gerdau s financial performance by increasing operating expenses denominated in Brazilian *reais*. A significant portion of its costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate.

Moreover, a significant portion of the Company s debt denominated in Brazilian *reais* is subject to interest at the CDI and TJLP rates, which are affected by many factors including inflation in Brazil. Another portion of the Company s debt, denominated in Brazilian *reais*, is indexed to general-inflation indexes, generally the IGP-M index. Therefore, higher inflation may result in increases in the Company s financial expenses and debt service obligations.

The interest rates that the Company pays depend on a variety of factors such as; movements on the interest rates, which can be driven by inflation; ratings given by the credit rating agencies that assess the Company; as well as the Company s debt securities that are traded in the secondary market, as bonds. The Company s debt obligations with floating interest rates, exposes the Company to market risks from changes in the CDI rate, IGP-M index and LIBOR. To reduce its exposure to interest rate risk, the Company seeks from time to time to enter into hedging arrangements to mitigate fluctuations in these rates, such as LIBOR.

The table below presents GDP growth, inflation, interest rates and the foreign exchange rate between the U.S. dollar and the Brazilian *real* for the periods shown.

	2014	2013	2012
Actual GDP growth	0.1%	2.3%	1.0%
Inflation (IGP-M) (1)	3.7%	5.5%	7.8%
Inflation (IPCA) (2)	6.4%	5.9%	5.8%
CDI rate (3)	11.5%	9.8%	6.9%
6-month LIBOR	0.4%	0.3%	0.5%
Depreciation (appreciation) in the Brazilian *real* against the U.S. dollar	13.4%	14.6%	8.9%
Foreign exchange rate at end of period $1.00	R$ 2.6562	R$ 2.4326	R$ 1.8758
Average foreign exchange rate $1.00 (4)	R$ 2.3547	R$ 2.1601	R$ 1.6751

Sources: Getúlio Vargas Foundation, Central Bank of Brazil and Bloomberg

(1) Inflation as measured by the General Market Price index (IGP-M) published by the Getúlio Vargas Foundation (FGV).

(2) Inflation as measured by the Broad Consumer Price Index (IPCA) measured by Brazilian Institute of Geography and Statistics (IBGE).

(3) The CDI rate is equivalent to the average fixed rate of interbank deposits recorded during the day in Brazil (annualized monthly cumulative figure at end of period).

(4) Average of the foreign exchange rates, according to the Brazilian Central Bank, on the last day of each month in the period indicated.

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U.S. Economic Conditions

In view of the size of the Company s operations in the United States, U.S. economic conditions have a significant effect on the Company s results, particularly with regard to U.S. economic growth and the related effects on steel demand, financing costs and the availability of credit.

In the United States, Real GDP began to fall in the third quarter of 2008 (down 2.7% annualized) before falling at a 5.4% annual rate in the fourth quarter of 2008 as uncertainty and tight credit conditions led companies to preserve cash, leading to a drawdown in inventories throughout the supply chain. Inventory reduction continued on a much wider scale in the first quarter of 2009, accounting for about one-half of the 6.4% drop in annualized Real GDP. The second quarter of 2009 saw demand begin to stabilize, with Real GDP falling at a 0.7% pace as domestic demand and inventories bottomed out. Supported by the Cash for Clunkers program, which drove a sharp rise in auto sales, and first-time homebuyer incentives, which supported improved housing starts, Real GDP in the United States grew by 5.7% in the fourth quarter of 2009, as re-stocking of inventories outweighed the continued negative impact of rising unemployment on consumption. Throughout the last three years, the United States economy kept showing a gradual recovery, with an increase in the demand for steel products. The improvements in the automotive sector, the non-residential construction sector and the manufacturing industry were the drivers of the recovery in demand.

In 2012, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.2% ($15.7 trillion Nominal GDP), with a trade deficit of $486.5 billion. Inflation, as measured by the CPI, was 2.0%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.14%.

In 2013, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.1% ($16.2 trillion Nominal GDP), with a trade deficit of $499.3 billion. Inflation, as measured by the CPI, was 1.8%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.11%.

In 2014, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.4% ($17.4 trillion Nominal GDP), with a trade deficit of $538.1 billion. Inflation, as measured by the CPI, was 1.6%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.09%.

The table below presents actual U.S. Real GDP growth, inflation and interest rates for the periods indicated.

	2014	**2013**	**2012**
Actual Real GDP growth (1)	2.4%	2.1%	2.2%
Inflation (CPI) (2)	1.6%	1.5%	2.1%
Fed Funds (3)	0.09%	0.11%	0.14%

Sources: International Monetary Fund and Federal Reserve Statistical Release

(1) Real GDP growth (annual percent change) published by the International Monetary Fund (IMF).

(2) Consumer price index, average of consumer prices (annual percent change) published by the International Monetary Fund (IMF). The CPI is a survey of consumer prices for all urban consumers.

(3) Fed Funds corresponds to the interest rate set by the U.S. Federal Reserve.

Impact of Inflation and Fluctuations in Exchange Rates

Gerdau s results and its financial position are largely dependent on the state of the Brazilian economy, notably (i) economic growth and its impact on steel demand, (ii) financing costs and the availability of financing, and (iii) the rates of exchange between the Brazilian *real* and foreign currencies.

For many years, Brazil experienced high inflation rates that progressively eroded the purchasing power of the vast majority of the population. During periods of high inflation, effective salaries and wages tend to fall because the frequency and size of salary and wage adjustments for inflation usually do not offset the actual rate of inflation. Since the introduction of the Brazilian *real* in July 1994, the inflation rate in Brazil has decreased dramatically. The Brazilian GDP in the last three years presented an increase of 1.0% in 2012, 2.3% in 2013 and 0.1% in 2014.

A portion of Gerdau s trade accounts receivable, trade accounts payable and debt is denominated in currencies other than the respective functional currencies of each subsidiary. The functional currency of the Brazilian operating subsidiaries is the Brazilian *real*. Brazilian subsidiaries have some of their assets and liabilities denominated in foreign currencies, mainly the U.S. dollar.

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The foreign exchange effect on translation of foreign subsidiaries is recorded directly in shareholders equity. Foreign exchange gains and losses on transactions, including the exchange gains and losses on some non-*real* denominated debt of the subsidiaries in Brazil are recognized in the statement of income. However, gains and losses from debts contracted for acquisition of overseas investments are designated as a hedge of investment in foreign subsidiaries, and are also recorded directly in shareholders equity. The operations of Gerdau in Brazil have both liabilities and assets denominated in foreign currency, with the amount of assets exceeding the amount of liabilities. The effect of the valuation of the Brazilian *real* versus other currencies (mainly the U.S. dollar) has a net positive effect in our shareholders equity.

The cyclical nature of supply and demand for steel products including the prices of steel products

The prices of steel products are generally sensitive to changes in world and local demand, which in turn are affected by economic conditions in the world and in the specific country. The prices of steel products are also linked to available installed capacity. Most of the Company s long rolled steel products, including rebars, merchant bars and common wire rods, are classified as commodities. However, a significant portion of the Company s long rolled products, such as special steel, wire products and drawn products, are not considered commodities due to differences in shape, chemical composition, quality and specifications, with all of these factors affecting prices. Accordingly, there is no uniform pricing for these products.

Over the last ten years, annual world crude steel production volume has varied from between approximately 1,144 million tonnes and 1.637 million tonnes. According to the worldsteel, world crude steel production in 2014 was 1,637 million tonnes, 1.1% higher than in 2013. China s crude steel production in 2014 reached 822.7 million tonnes, an increase of 0.9% over 2013. In 2014, China s share of world steel production was 50.3% of world total crude steel. According to worldsteel, world demand for finished steel products increased by grow 3.1% in 2013, is estimated to grow 2.0% in 2014, and the forecast for 2015 is a growth 2.0%.

International steel prices has declined around 42.0% over the last five years (2010-2014), this is due mainly to excess installed capacity in the world. International steel prices have experienced ups and downs throughout the period from the fourth quarter of 2007 and through the fourth quarter of 2009, when the average price per tonne of CIS export billet at Black Sea/Baltic Sea was an average of $512 in the fourth quarter of 2007, skyrocketing to $1.205 in June 2008, slumping to $295 in March 2009 and reaching $415 at the end of 2009. This swing in the steel price was mainly caused by the turmoil in the world economy and the surplus supply of steel products in a scenario of lower demand. During 2014, the average price has decreased 21.1% when compared to 2013, going from $503 in 2013 to $ 397 in 2014, due to the decrease in the iron ore prices, which have a strong correlation with the steel prices, and the slowdown in China s economic growth.

The average price per tonne of the CIS export billet at the Black Sea/Baltic Sea is used as a reference for the international price, and it is possible to see its evolution in the chart below:

Average Price of CIS Export Billet at Black Sea/Baltic Sea ($ per Tonne)

Source: Metal Bulletin and Bloomberg

Export levels - during periods of lower domestic demand for the Company s products, the Company actively pursues export opportunities for its excess production in order to maintain capacity utilization rates and shipments. During periods of higher domestic demand for its products, export sales volumes may decline as the Company focuses on satisfying domestic demand. Gerdau exports products from Brazil to customers in other continents with whom we have long-established commercial relations. In 2014, exports were 25.4% lower than in 2013, falling to 1,043 million tonnes (1,398 million tonnes in 2013), which represented 15.8% of all shipments by the Company s Brazilian units, in 2013 exports represented 19.2% of total shipments from Brazil operations. Export revenue totaled R$ 1,659 million in 2014 (R$ 2,190 million in 2013).

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Production costs - raw materials account for the highest percentage of the Company s production costs. Metallic inputs, which includes scrap, pig iron, iron ore, coke and metallic alloys, represented approximately 50.9% of production costs in 2014, while Energy and Reducing Agents, which represents the cost of coal, electricity, oxygen, natural gas and fuel oil, accounted for 12.3%. Personnel totaled 16.8% of production costs and Specific Materials, which includes refractories, electrodes, rolling cylinders, rollers, guides, carburants and lime, were 7.8% of total production costs. The table below presents the production costs breakdown by business operation (BO):

Production Costs Breakdown in 2014 (%)

% of costs	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Consolidated		Brazil BO		North America BO		Latin America BO		Special Steel BO	
Personnel	16.8	16.6	20.4	18.5	14.0	14.6	11.7	10.9	19.6	20.2
Maintenance	7.3	6.6	7.1	6.4	8.8	7.9	6.0	4.9	6.0	6.0
Depreciation	4.9	4.8	7.2	6.5	3.3	3.6	3.3	3.1	5.2	5.1
Metallic Inputs	50.9	50.6	36.9	38.4	59.5	59.2	64.0	66.7	47.3	46.6
Energy and Reducing Agents	12.3	13.2	21.4	22.7	6.5	6.8	9.7	9.0	11.9	11.3
Specific Materials	7.8	8.2	7.0	7.5	7.9	7.9	5.3	5.4	10	10.8

Significant events affecting financial performance during 2014

Exchange rate In accordance with IFRS, the Company has designated a portion of its debt denominated in foreign currency and contracted by companies in Brazil as a hedge for a portion of the net investments in foreign subsidiaries. As a result, the effects from exchange variation gains or losses on the portion of debt designated for hedge accounting are also recognized in shareholders equity. The subsidiaries that issued the debt are not subject to income taxes and as such there is no income tax effect on the exchange gains and losses on the debt. However the subsidiaries have loaned the proceeds to other entities in Brazil with terms identical to those of the Ten Year Bonds. The payable by the subsidiaries in Brazil to the foreign subsidiaries denominated in US dollars generates exchange gains (losses) that are taxable and results in income tax recognized in the income statement, while these exchange variances are eliminated in consolidation with the offsetting exchange gains (losses) recognized by the foreign subsidiaries.

Starting from April 1, 2012, with the objective of eliminating the tax effect from the exchange variance of these debts, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in subsidiaries located outside Brazil. As a result, the exchange variation on the amount of US$2.9 billion (US$2.7 billion related to the Ten/Thirty Years Bonds and US$0.2 billion related to other financing operations) was recognized in the statement of comprehensive income, while the exchange variation on the portion of US$ 1.0 billion is now recognized in income.

Impairment of assets In December 2014, the Company also performed impairment test for assets with definite useful life and it was identified in the Latin America segment an impairment loss of R$ 339,374 thousand due to the lack of expected future use for those assets.

Gains in joint ventures operations - On October 8, 2014, the Company concluded the sale of the interest held of 50% on the jointly-controlled entity Gallatin Steel Company (Gallatin) for the amount of R$ 937.8 million. Gallatin is a flat rolled mini-mill located in Gallatin County, Kentucky, USA that melts scrap, pig iron and hot briquetted iron from various sources, and processes the material to produce flat rolled steel.

The gain from the sale of this interest was R$ 636,528 thousand and was recognized in Income, in the item Gains in Joint ventures operations .

Operating Results

The following presentation of the Company s operating results for the years ended December 31, 2014, 2013 and 2012 is based on the Company s consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) included in this Annual Report. References to increases or decreases in any year or period are made in relation to the corresponding prior year or period, except where stated otherwise.

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The table below presents information for various income statements items and are expressed in both reais and as a percentage of net sales for each of the respective years:

	For the year ended December 31,							
	2014		2013		2012		Variation 2014/ 2013	Variation 2013/ 2012
	R$ million	% net sales	R$ million	% net sales	R$ million	% net sales		
Net sales	42,546	100.0%	39,863	100.0%	37,982	100.0%	6.7%	5.0%
Cost of Sales	(37,406)	(87.9)%	(34,728)	(87.1)%	(33,234)	(87.5)%	7.7%	4.5%
Gross profit	5,140	12.1%	5,135	12.9%	4,748	12.5%	0.1%	8.2%
Operating expenses:								
Selling expenses	(691)	(1.6)%	(659)	(1.7)%	(587)	(1.5)%	4.9%	12.3%
General and administrative expenses	(2,037)	(4.8)%	(1,953)	(4.9)%	(1,884)	(5.0)%	4.3%	3.6%
Other operating income	238	0.6%	318	0.8%	244	0.6%	(25.1)%	30.0%
Other operating expenses	(151)	(0.4)%	(141)	(0.4)%	(180)	(0.5)%	7.1%	(22.1)%
Impairment of assets	(339)	(0.8)%						
Gains in joint ventures operations	637	1,5%						
Equity in earnings of unconsolidated companies	102	0.2%	54	0.1%	8	0.0%	88.9%	546.5%
Net Income Before Financial Income (Expenses) and Taxes	2,899	6.8%	2,754	6.9%	2,349	6.2%	5.3%	17.3%
Financial income	276	0.6%	293	0.7%	317	0.8%	(5.8)%	(7.5)%
Financial expenses	(1,397)	(3.3)%	(1,054)	(2.6)%	(953)	(2.5)%	32.5%	10.6%
Exchange variations, net	(476)	(1.1)%	(544)	(1.4)%	(134)	(0.4)%	(12.5)%	305.7%
Gains and losses on financial instruments, net	36	0.1%	3	0.0%	(19)	0.0%	1100.0%	
Income and social contribution taxes	150	0.4%	241	0.6%	(63)	0.2%	(37.8)%	
Net income	1,488	3.5%	1,694	4.2%	1,496	3.9%	(12.1)%	13.2%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Net Sales

Net Sales by Business Operations(*) (R$ million)	Year ended December 31, 2014	Year ended December 31, 2013	Variation Year ended December 31, 2014/ Year ended December 31, 2013
Brazil	14,294	14,837	-3.7%
North America	14,049	12,562	11.8%
Latin America	5,670	5,366	5.7%
Special Steel	8,644	8,023	7.7%
Iron Ore	945	704	34.2%

Intercompany Eliminations	(1,055)	(1,629)	
Total	**42,546**	**39,863**	**6.7%**

(*) The information does not include data from joint ventures and associate companies.

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Net Sales per tonne by Business Operations(*) (R$/tonne)	Year ended December 31, 2014	Year ended December 31, 2013	Variation Year ended December 31, 2014/ Year ended December 31, 2013
Brazil	2,171	2,038	6.5%
North America	2,283	2,044	11.7%
Latin America	2,162	1,912	13.1%
Special Steel	2,987	2,808	6.4%
Iron Ore	119	140	-15.0%
Consolidated(1)	**2,381**	**2,153**	**10.6%**

(*) The information does not include data from joint ventures and associate companies.

(1) The information does not include iron ore volumes.

In 2014, consolidated net sales increased by 6.7% from 2013, due mainly to the impact of exchange variation on the translation of net sales from foreign companies into Brazilian real (9.0% average depreciation of the Brazilian real against the U.S. dollar). Excluding the exchange effect, net sales would have been relatively stable.

In the Brazil Business Operation, the 3.7% decline in net sales in 2014 compared to 2013 resulted chiefly from the 5.8% lower shipments in the domestic market, from 5,883 thousand tonnes in 2013 to 5,540 thousand tonnes in 2014, and the 25.4% reduction in exports, from 1,398 thousand tonnes in 2013 to 1,043 thousand tonnes in 2014. The lower shipments were partially offset by higher net sales per tonne sold in the domestic market (+4.3%). In the domestic market, the reduction in shipments was due to the lower level of activity in the construction and industrial sectors, reflecting weak GDP growth 0.1% in 2014). Lower exports in the period are explained by lower international prices and global steel oversupply.

In the North America Business Operation, net sales in 2014 were 11.8% higher than in 2013 due to exchange variation (9.0% average depreciation in the Brazilian real against the U.S. dollar) and, to a lesser extent, higher net sales per tonne sold, which grew 2.7% in U.S. dollar.

In the Latin America Business Operation, net sales in 2014 increased 5.7% from 2013, due to the exchange rate effect, with the depreciation of the Brazilian real against the currencies of most countries where Gerdau operates, despite the 6.6% contraction in shipments, from 2,808 thousand tonnes in 2013 to 2,623 thousand tonnes in 2014.

In the Special Steel Business Operation, net sales increased by 7.7% in 2014 compared to 2013, due mainly to the impact of exchange variation (9.0% average depreciation of the Brazilian real against the U.S. dollar) on sales at foreign units. Excluding this impact, net sales growth would have been similar to the 1.3% increase in shipments (2,857 thousand tonnes in 2013 to 2,894 thousand tonnes in 2014).

In the Iron Ore Business Operation, the 34.2% increase in net sales in 2014 compared to 2013 is due to higher shipments (+58.9%), from 5,017 thousand tonnes in 2013 to 7,971 thousand tonnes in 2014, despite the lower international prices (IODEX SF 62% CFR China, Platt s 2013 average of US$ 135/t and US$ 97/t in 2014).

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Cost of Sales and Gross Profit

Net sales, Cost of Sales and Gross Profit(*)		Year ended December 31, 2014	2013	Variation Year ended December 31, 2014/ Year ended December 31, 2013
Brazil	Net sales (R$million)	14,294	14,837	(3.7)%
	Cost of Sales (R$million)	(11,641)	(11,884)	(2.0)%
	Gross Profit (R$million)	2,653	2,953	(10.1)%
	Gross margin (%)	*18.6%*	*19.9%*	
North America	Net sales (R$million)	14,049	12,562	11.8%
	Cost of Sales (R$million)	(13,093)	(11,919)	9.8%
	Gross Profit (R$million)	956	643	48.6%
	Gross margin (%)	*6.8%*	*5.1%*	
Latin America	Net sales (R$million)	5,670	5,366	5.7%
	Cost of Sales (R$million)	(5,023)	(4,801)	4.6%
	Gross Profit (R$million)	647	565	14.5%
	Gross margin (%)	*11.4%*	*10.5%*	
Special Steel	Net sales (R$million)	8,644	8,023	7.7%
	Cost of Sales (R$million)	(7,922)	(7,309)	8.4%
	Gross Profit (R$million)	722	714	1.1%
	Gross margin (%)	*8.4%*	*8.9%*	
Iron Ore	Net sales (R$million)	945	704	34.2%
	Cost of Sales (R$million)	(788)	(441)	78.7%
	Gross Profit (R$million)	157	263	(40.3)%
	Gross margin (%)	16.6%	37.4%	
Intercompany Eliminations	Net sales (R$million)	(1,055)	(1,629)	
	Cost of Sales (R$million)	1,060	1,627	
	Gross Profit (R$million)	5	(2)	
Total	**Net sales (R$million)**	**42,546**	**39,863**	**6.7%**
	Cost of Sales (R$million)	**(37,406)**	**(34,728)**	**7.7%**
	Gross Profit (R$million)	**5,140**	**5,135**	**0.1%**
	Gross margin (%)	***12.1%***	***12.9%***	

(*) The information does not include data from joint ventures and associate companies.

In 2014, cost of sales increased by 7.7% from 2013, due mainly to the impact of exchange variation on the translation of the cost of sales at foreign companies into Brazilian real. Excluding the exchange effect, cost of sales would have increased slightly. Gross margin contracted form 12.9% in 2013 to 12.1% in 2014, due to the reduction in gross profit and gross margin from the Brazil Business Operation, which was partially offset by higher gross profit and gross margin from the North America Business Operation.

In the Brazil Business Operation, cost of sales decreased by 2.0% in 2014 compared to 2013, due to lower shipments (-9.6%). The reduction in cost of sales was lower than the decline in net sales (-3.7%) due to the lower dilution of fixed costs (payroll plus maintenance accounted for 24.9% of production costs in 2013 and 27.6% in 2014), leading to a decline in gross margin, from 19.9% in 2013 to 18.6% in 2014.

In the North America Business Operation, cost of sales in 2014 was 9.8% higher than in 2013 due to exchange variation (9.0% average depreciation in the Brazilian real against the U.S. dollar). The higher increase in net sales than in the cost of sales led to gross margin expansion in the period, from 5.1% in 2013 to 6.8% in 2014.

In the Latin America Business Operation, cost of sales in 2014 increased 4.6% from 2013, due to the exchange rate effect, with the depreciation of the Brazilian real against the currencies of most countries where Gerdau operates, despite the 6.6% contraction in shipments. Gross margin expansion from 10.5% in 2013 to 11.4% in 2014 resulted from net sales growth outpacing the increase in cost of sales, driven by improved gross margin in the Colombia and Peru units.

In the Special Steel Business Operation, the 8.4% increase in cost of sales was driven by exchange variation (depreciation of the Brazilian real against the currencies of most countries where Gerdau operates) on costs at the foreign units and higher cost per tonne in the units in Brazil, due to lower capacity utilization rates in the comparison periods (from 77% in 2013 to 71% in 2014) and the consequent lower dilution of fixed costs. These effects resulted in a slight gross margin contraction, from 8.9% in 2013 to 8.4% in 2014.

In the Iron Ore Business Operation, cost of sales in 2014 increased 78.7% from 2013, due to the increased share of shipments to third parties out of total shipments (from 24.8% in 2013 to 44.7% in 2014). Shipments to third parties incur higher logistics costs compared shipments to Gerdau units (e.g. railway costs, port fees and maritime freight). Gross margin contraction from 37.4% in 2013 to 16.6% in 2014 is explained by the significant decline in international prices (IODEX SF 62% CFR China, Platt s 2013 average of 2013 US$ 135/t and US$ 97/t in 2014).

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Selling, General and Administrative Expenses

Operating Expenses(*) (R$ million)	2014	2013	Variation Year ended December 31, 2014/ Year ended December 31, 2013
Selling expenses	691	659	4.9%
General and administrative expenses	2,037	1,953	4.3%
Total	2,728	2,612	4.4%
Net sales	42,546	39,863	6.7%
% of net sales	**6.4%**	**6.6%**	

(*) The information does not include data from joint ventures and associate companies.

The 4.4% increase in the absolute value of selling, general and administrative expenses was mainly due to the exchange variation impact on expenses of foreign operations, while these expenses remained relatively stable as a percentage of net sales, thanks to efforts by the Company s management, especially in a year when costs were pressured and the Brazilian real lost value, all of which impact the translation of these expenses from our international operations into Brazilian real.

Other operating income (expenses), Impairment of assets, Gain in joint ventures operations and Equity in earnings of unconsolidated companies

The reduction in other operating income (expenses) in 2014 compared to 2013 is due to the sale of commercial properties in Brazil for R$98.6 million, recorded in the fourth quarter of 2013.

The line Impairment of assets recorded in 2014 refers to certain assets of the Latin American Business Operation that are not expected to be used, identified through impairment tests.

The line Gain in joint ventures operations recorded in 2014 includes the sale of the 50% interest held in Gallatin Steel Company on October 8, 2014.

Jointly controlled entities and associate companies, whose results are calculated using the equity method, recorded steel shipments of 1.1 million tonnes in 2014, based on their respective equity interests. These shipments generated net sales of R$2.2 billion, or 12.4% more than in 2013. Based on these companies results, equity income was a gain of R$101.9 million in 2014, versus a gain of R$54.0 million in 2013.

Income before Financial Income (Expenses) and Taxes

Operating Income before Financial Result and Taxes increased from R$2,754 million in the fiscal year ended December 31, 2013 to R$2,899 million in 2014 though gross profit remained stable. The increase was chiefly due to the gain from the sale of Gallatin Steel Company, which was partially impacted by impairment of asset losses.

Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses on financial instruments, net

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R$ million)	**2014**	**2013**	**Variation Year ended December 31, 2014/ Year ended December 31, 2013**
Financial income	276	293	(5.8)%
Financial expenses	(1,397)	(1,053)	32.7%
Exchange variation, net	(476)	(544)	(12.5)%
Gains and Losses on financial instruments, net	36	3	1,100.0%
Total	**(1,561)**	**(1,301)**	**20.0%**

(*) The information does not include data from joint ventures and associate companies.

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The higher financial expense in 2014 of R$ 1.4 billion compared to 2013 in the amount of R$1.1 billion is due to higher financial expenses derived from the increase in gross debt from R$ 16.7 billion on December 31, 2013 to R$ 19.5 billion on December 31, 2014.

Note that, in accordance with IFRS, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in overseas subsidiaries. As a result, the exchange variation on US$2.9 billion (US$2.7 billion related to the Ten/Thirty Years Bonds plus US$0.2 billion related to other financing operations) was recognized under shareholders equity, while the exchange variation on the portion of US$1.0 billion was recognized in the income statement.

Income and Social Contribution Taxes

Income tax had an impact in the net income of R$150 million in 2014, compared to R$241 million in 2013. The change is due mainly to the recognition of the effects of joining the Refis tax amnesty program on profits generated abroad in the net amount of expense of R$87.8 million in 2014, and the reduction in tax benefit due to the lower amounts paid as interest on equity (R$119.8 million in 2013 and R$76.9 million in 2014), netted by the decrease in the net income before taxes .

Net Income

Consolidated net income decreased by 12.1% in 2014 compared to 2013, despite the higher operating income that includes specific events described in Other operating income (expenses), Impairment of assets, Gain in joint ventures operations and Equity in earnings of unconsolidated companies.

In the Brazil Business Operation, net income was R$959 million in 2014, 37.6% lower than in 2013, due to the lower gross profit and higher financial expenses in the period.

The North America Business Operation recorded net income of R$691 million in 2014, compared to net income of R$19 million in 2013, as a consequence of the gain from the sale of Gallatin Steel Company (R$415 million, net of income tax) and the higher gross profit in the comparison period.

In 2014, the Latin America Business Operation recorded a net loss of R$162 million, compared to net income of R$104 million in 2013, as a result of the impairment of asset loss of R$339 million, which was partially offset by higher gross profit in the period.

In 2014, the Special Steel Business Operation recorded net income of R$123 million, 21.7% lower than in 2013, due to the higher financial expense and higher selling, general and administrative expenses.

The Iron Ore Business Operation posted net income of R$55 million in 2014, 67.4% lower than in 2013, due to the lower gross profit in the period.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Net Sales

Net Sales by Business Operations(*) (R$ million)	Year ended December 31, 2013	Year ended December 31, 2012	Variation Year ended December 31, 2013/ Year ended December 31, 2012
Brazil	14,837	14,028	5.8%
North America	12,562	12,450	0.9%
Latin America	5,366	4,964	8.1%
Special Steel	8,023	7,389	8.6%
Iron Ore	704	491	43.4%
Intercompany Eliminations	(1,629)	(1,340)	
Total	**39,863**	**37,982**	**5.0%**

(*) The information does not include data from joint ventures and associate companies.

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Net Sales per tonne by Business Operations(*) (R$/tonne)	**Year ended December 31, 2013**	**Year ended December 31, 2012**	**Variation Year ended December 31, 2013/ Year ended December 31, 2012**
Brazil	2,038	1,925	5.9%
North America	2,044	1,924	6.2%
Latin America	1,912	1,834	4.2%
Special Steel	2,808	2,781	1.0%
Iron ore	140	111	26.1%
Consolidated(1)	**2,153**	**2,043**	**5.4%**

(*) The information does not include data from joint ventures and associate companies.

(1) The information does not include iron ore volumes.

In 2013, consolidated net sales grew 5.0% in relation to 2012, mainly due to the increase in net sales per tonne shipped at all business operations (5.4% on a consolidated basis), despite the 0.4% reduction in shipments. The higher net sales per tonne shipped also reflect the effects of exchange variation on the net sales of Gerdau s operations abroad (10.4% depreciation in the Brazilian *real* against the U.S. dollar based on the average exchange rate in the period).

In the Brazil Business Operation, net sales grew 5.8% driven primarily by higher shipments to the domestic market, which increased from 5,320 thousand tonnes in 2012 to 5,883 thousand tonnes in 2013, an increase of 10.6%. This increase in the domestic market was driven mainly by the improvement in the manufacturing industries served by Gerdau (which accounted for around 42% of the sales of this Operation in 2012 and went to approximately 47% in 2013), after a long period of low demand and by continued good demand from the commercial construction and infrastructure sectors. Consequently, this better sales mix (higher sales in the domestic market and reduction of exports) resulted in higher net sales per tonne sold. The 29.4% reduction of exports, going from 1,979 thousand tonnes in 2012 to 1,398 thousand tonnes in 2013, occurred due to the continued low demand in the international market and excess crude steel capacity in the world.

In the Special Steel and Latin America Business Operations, net sales grew, respectively, 8.6% and 8.1%. In the Special Steel Business Operation, the higher net sales was mainly due to the 7.5% recovery in shipments, driven by the improvement in Brazil s heavy vehicle industry, following implementation of the Euro 5 emissions standard, in addition to the shipments resulting from the first year of operations of the mill in India. In the Latin America Business Operations, the increase in net sales was due to the 3.7% higher shipments in the period, which was driven by the solid economic growth observed in the countries in which Gerdau operates, led by Peru (PIB +5.0%) and Colombia (PIB +4.0%). Moreover, net sales per tonne sold grew by 4.2%, influencing the increase in net sales from this Operation.

In the North America Business Operation, net sales were virtually stable (+0.9%), with the increase in net sales per tonne sold (+6.2%) offsetting the reduction of 5.1% in shipments. This reduction in shipments is explained by the market s slow growth in 2013 and by the growing share of imported products due to the stronger U.S. dollar. It is important to note that the net sales per tonne sold was influenced by exchange variation in the period (depreciation of 10.5% in the Brazilian *real* against the U.S. dollar, average in period).

In the Iron Ore Business Operation, net sales increased by 43.4% due to higher sales which increased from 4,399 thousand tonnes in 2012 to 5,017 thousand tonnes in 2013, an increase of 14.0%, besides an increased of 26.1% in net sales per tonne.

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Cost of Sales and Gross Profit

Net sales, Cost of Sales and Gross Profit(*)		**Year ended December 31, 2013**	**2012**	**Variation Year ended December 31, 2013/ Year ended December 31, 2012**
Brazil	Net sales (R$million)	14,837	14,028	5.8%
	Cost of Sales (R$million)	(11,884)	(11,800)	0.7%
	Gross Profit (R$million)	2,953	2,228	32.5%
	Gross margin (%)	*19.9%*	*15.9%*	
North America	Net sales (R$million)	12,562	12,450	0.9%
	Cost of Sales (R$million)	(11,919)	(11.453)	4.1%
	Gross Profit (R$million)	643	997	(35.5)%
	Gross margin (%)	*5.1%*	*8.0%*	
Latin America	Net sales (R$million)	5,366	4,964	8.1%
	Cost of Sales (R$million)	(4,801)	(4,636)	3.6%
	Gross Profit (R$million)	565	329	71.7%
	Gross margin (%)	*10.5%*	*6.6%*	
Special Steel	Net sales (R$million)	8,023	7,389	8.6%
	Cost of Sales (R$million)	(7,309)	(6,421)	13.8%
	Gross Profit (R$million)	714	968	(26.2)%
	Gross margin (%)	*8.9%*	*13.1%*	
Iron Ore	Net sales (R$million)	704	491	43.4%
	Cost of Sales (R$million)	(442)	(250)	76.4%
	Gross Profit (R$million)	263	241	9.1%
	Gross margin (%)	37.4%	49.1%	
Intercompany Eliminations	Net sales (R$million)	(1,629)	(1,340)	
	Cost of Sales (R$million)	1,627	1,325	
	Gross Profit (R$million)	(2)	(15)	
Total	**Net sales (R$million)**	**39,863**	**37,982**	**5.0%**
	Cost of Sales (R$million)	**(34,728)**	**(33,234)**	**4.5%**
	Gross Profit (R$million)	**5,135**	**4,748**	**8.2%**
	Gross margin (%)	***12.9%***	***12.5%***	

(*) The information does not include data from joint ventures and associate companies.

In fiscal year 2013, consolidated cost of goods sold was 4.5% higher than in 2012, which was partially due to the higher costs per tonne shipped resulting from the effects of exchange variation on costs of Gerdau s operations abroad (10.4% depreciation in the Brazilian real against the U.S. dollar based on the average exchange rate in the period). The increase is also explained by the lower dilution of fixed costs due to the 4.8% decrease in crude steel production. Given the lower production in the period, the cost of metal inputs represented 43.8% of consolidated cost of goods sold in 2013, compared to 48.8% in 2012. Despite the 4.5% increase in cost of goods sold, gross margin expanded slightly, from 12.5% in 2012 to 12.9% in 2013, due to the 5.0% increase in net sales.

In the Brazil Business Operation, gross margin increased from 15.9% in 2012 to 19.9% in 2013, due to the 5.8% growth in net sales in the same period compared, once the cost of sales presented relative stability (+ 0.7%).

In the North America Business Operation, the 4.1% increase in cost of goods sold was due to the translation of amounts in U.S. dollar (the transaction currency of this Business Operation) into Brazilian real (10.4% depreciation in the Brazilian *real* against the U.S. dollar based on the average exchange rate in the period). Based on the transaction currency of this Business Operation, cost of goods sold decreased 5.9%, reflecting the 5.1% decrease in shipments. Given that, in the Company s functional currency, the growth in cost of goods sold outpaced the growth in net sales, gross margin contracted from 8.0% in 2012 to 5.1% in 2013.

In the Latin America Business Operation, the 3.6% increase in cost of goods sold was due to the 3.7% growth in shipments. Gross margin expanded from 6.6% in 2012 to 10.5% in 2013, which is explained by the higher dilution of fixed costs (personnel plus maintenance costs corresponded to 16.4% of the production costs of this operation in 2012 and to 15.8% in 2013) resulting from the higher shipments in the period, as well as by the increase of 4.2% in net sales per tonne shipped.

In the Special Steel Business Operation, the 13.8% increase in cost of goods sold was due to higher shipments in the period (+7.5%) and to the higher costs associated with the learning curve at the India operation, which started its steel production activities in early 2013. These higher production costs combined with the lower net sales per tonne shipped at the units in Spain and the United States led to contraction in gross margin, from 13.1% in 2012 to 8.9% in 2013.

In Iron Ore Business Operation, the cost of sales in 2013 when compared with 2012 presented an increase of 76,4% due to the third parties sales, which didn t exist in 2012 and came to represent 24.8% of total sales in 2013. Shipments to third parties incur higher logistics costs compared to shipments to Gerdau units (e.g. railway costs, port fees and maritime freight). The higher increase in the cost of sales than in net sales led to gross margin decrease in the period, from 49.1% in 2012 to37.4% in 2013.

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Selling, General and Administrative Expenses

Operating Expenses(*) (R$ million)	2013	2012	Variation Year ended December 31, 2013/ Year ended December 31, 2012
Selling expenses	659	587	12.3%
General and administrative expenses	1,953	1,884	3.7%
Total	2,612	2,471	5.7%
Net sales	39,863	37,982	5.0%
% of net sales	**6.6%**	**6.5%**	

(*) The information does not include data from joint ventures and associate companies.

The increase of 5.7% in the absolute value of selling, general and administrative expenses was mainly due to the increase of 12.3% in selling expenses related to the Company s marketing campaigns, most of which were implemented in Brazil. Despite this increase, selling, general and administrative expenses as a ratio of net revenue remained virtually stable in 2013 compared to 2012, which reflects the Company s cost management efforts. This was especially relevant given that the year was marked by cost pressures and the depreciation in the Brazilian *real*, with the latter adversely affecting these expenses in our international operations when translated into Brazilian *real*.

Equity in Earnings of Unconsolidated Companies

The joint ventures and associate companies, whose results are calculated using the equity method, recorded steel shipments of 1.1 million tonne in 2013, based on their respective equity interests. The amount of shipments was in line with the previous year and generated net sales of R$1.9 billion, or 7.3% more than in 2012.

Based on these companies results, equity income was a gain of R$54.0 million in 2013, versus a gain of R$8.4 million in 2012.

Income before Financial Income (Expenses) and Taxes

The Net Income before Financial Results and Taxes increased from R$2,348 million in 2012, to R$2,754 million in the fiscal year ended December 31, 2012, basically due to the higher gross profit, as explained in the section Cost of Sales and Gross Profit . In addition, in 2013, the Company recorded in the line other operating income , a gain of R$ 99 million related to divestment of commercial properties. This property sale is aligned with the Company s objective in focusing on the strength of its balance sheet and improving the return on its assets.

Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses on financial instruments, net

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R$ million)	**2013**	**2012**	**Variation Year ended December 31, 2013/ Year ended December 31, 2012**
Financial income	293	317	(7.6)%
Financial expenses	(1,053)	(953)	10.5%
Exchange variation, net	(544)	(134)	306.0%
Gains and Losses on financial instruments, net	3	(19)	
Total	**(1,301)**	**(789)**	**64.9%**

(*) The information does not include data from joint ventures and associate companies.

In 2013, the higher negative financial result, when compared to 2012, was mainly due to the effects from exchange variation on the liabilities contracted in currencies other than the Brazilian *real*, mainly the U.S. dollar (depreciation of 10.5% in the Brazilian *real* against the U.S. dollar, average in period), and, to a lesser extent, to the higher financial expense resulting from the increase in the average interest rate between the comparison periods, which went from 5.9% in the first quarter of 2013 to 6.5% in the last quarter of 2013.

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Note that, in accordance with IFRS, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in subsidiaries located outside Brazil. As a result, the exchange variation on the amount of US$ 2.6 billion (US$ 2.4 billion from the Ten Year Bonds plus US$ 0.2 billion from other financing operations) was recognized in the statement of comprehensive income, while the exchange variation on the portion of US$ 1.0 billion is now recognized in income.

Income and Social Contribution Taxes

Provision for income tax was positive in R$ 241 million in 2013, compared to negative R$ 63 million in 2012. The variation was primarily due to the difference in tax rates in foreign companies, which includes the tax impact of the Company hedging strategy (as mentioned in the item Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses in Derivatives, net), of R$ 323 million in 2013 compared to R$ 134 million in 2012. Also, there was a positive impact on tax benefit on interest on equity in the amount of R$ 119,773 in 2013, compared to R$ 40,264 in 2012, and the capital gain taxes, which was R$ 122,121 in 2012.

Net Income

Consolidated net income increased by 13.2% in 2013 compared to 2012, mainly due to the improvement in operating results, partially offset by the higher negative financial result.

In the Brazil Business Operation, net income was R$1,537 million in 2013, 59.9% higher than in 2012, mainly due to the better operational result in the period.

The North America Business Operation recorded, in 2013, net income of R$ 19 million, compared to net income of R$ 324 million in 2012, reflecting the decreases in operating income between the periods.

In 2013, the Latin America Business Operation recorded a net income of R$ 104 million, compared to net loss of R$ 42 million in 2012, reflecting the better operating result.

In 2013, the Special Steel Business Operation recorded net income of R$ 157 million, 56.7% lower than in 2012, reflecting the lower operating income, especially from the operations in Spain and United States, in addition to the negative impact from the learning curve of the mill in India.

The Iron Ore Business Operation recorded net income of R$ 168 million in 2013, or 3.7% more than in 2012, due to the better operational result in the period, partially impacted by the increase in selling, general and administrative expenses.

Critical Accounting Policies

Critical accounting policies are those that are both (a) important to present the financial position and results of operations and (b) require Management s most difficult, subjective or complex judgments, often as a result of the need to make estimates that impact matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In the preparation of the Consolidated Financial Statements, the Company has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by the Company in the normal course of business, the presentation of its financial position and results of operations often requires making judgments regarding the effects of inherently uncertain matters on the carrying value of its assets and liabilities. Actual results may differ from estimates based on different variables, assumptions or conditions. In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting policy described below:

- deferred income and social contribution tax;
- pension and post-employment benefits;
- environmental liabilities;
- valuation of assets acquired and liabilities assumed in business combinations,
- business combination, and
- impairment test of assets with definite and indefinite useful life.

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a) Deferred Income and Social Contribution Tax

The liability method of accounting (according to the concept described in IAS 12) for income taxes is used for deferred income and social contribution taxes arising from temporary differences between the book value of assets and liabilities and their tax bases. The amount of the deferred income and social contribution tax asset is revised at each Consolidated Financial Statement date and reduced by the amount that is no longer probable of being realized based on future taxable income. Deferred income and social contribution tax assets and liabilities are calculated using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to record a tax asset and the amount to be recorded.

The realization of deferred tax assets for tax loss carryforwards are supported by projections of taxable income based on technical feasibility studies submitted annually to the Company s Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and expectation of continuous profitability and estimated the recovery of deferred tax assets over future years. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their estimate of realization.

b) Pension and Post-Employment Benefits

Actuarial gains and losses are recorded in the period in which they are originated and are recorded in the statement of comprehensive income.

The Company recognizes its obligations related to employee benefit plans and related costs, net of plan assets, in accordance with the following practices:

i) The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit of credit method and management s best estimate of expected investment performance for funded plans, salary increase, retirement age of employees and expected health care costs. The discount rate used for determining future benefit obligations is an estimate of the interest rate in effect at the balance sheet date on high-quality fixed-income investments with maturities that match the expected maturity of obligations.

ii) Pension plan assets are stated at fair value.

iii) Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based on actuarial evaluation done by independent actuaries.

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions, return on plan assets, future increases in health care costs, and rate of future compensation increases. In addition, actuarial computations include other factors whose measurement involves judgment such as withdrawal, turnover, and mortality rates. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer

or shorter participant life spans.

c) Environmental Liabilities

The Company records provisions for environmental liabilities based on best estimates of potential clean-up and remediation costs for known environmental sites. The Company has a team of professionals to manage all phases of its environmental programs. These professionals develop estimates of liabilities at these sites based on projected and known remediation costs. These analysis requires the Company to make significant estimates and changes in facts and circumstances which may result in material changes to environmental provisions.

The steel industry uses and generates substances that may damage the environment. The Company s management performs frequent surveys with the purpose of identifying potentially impacted areas and records as current liabilities and in non-current liabilities in the account Environmental liabilities , based on best cost estimate, the amounts estimated for investigation, treatment and cleaning of potentially affected sites. The Company used assumptions and estimates for determining the estimated amount, which may vary in the future depending on the final investigations and determination of the actual environmental impact.

The Company is compliant with all the applicable environmental regulations in the countries where they operate.

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d) Valuation of Assets Acquired and Liabilities Assumed in Business Combinations

During the last several years the Company has made certain business combinations. According to IFRS 3, for business combinations occurring after the IFRS transition date, the Company allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Company exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of future cash flow discounted at the appropriate rates. The use of valuation assumptions includes discounted cash flow estimates and discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

e) Business Combination

Step-acquisitions in which control is obtained

When a business combination is achieved in stages, the interest previously held by the Company in the acquired company is remeasured at fair value at acquisition date (in the date when the Company acquires the control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts related to the acquired company which were recognized in Other comprehensive income before the acquisition date, are reclassified to income, where such treatment would be appropriate in case this interest was sold.

Acquisitions in which control is obtained initially

Acquisitions of subsidiaries and businesses are accounted for under the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed and equity instruments issued by the Group in exchange for control. The acquiree s identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Under the previous version of the Standard, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration are recognized against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the provisional period (a maximum of 12 months from the acquisition date). All other subsequent adjustments are

recognized in profit or loss.

Increases/decreases in non-controlling interests

In prior years, in the absence of specific requirements in IFRS, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate.

The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) are recognized in profit or loss. Under the revised standards, all increases or decreases in such interests are accounted for within equity, with no impact in goodwill or profit or loss.

Subsequent purchases, after the Company has obtained control, are treated as the acquisitions of shares from non-controlling shareholders: the identifiable assets and liabilities of the entity are not subject to a further revaluation and the positive or negative difference between the cost of such subsequent acquisitions and the net value of the additional proportion of the company is accounted for within equity.

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Loss of control of a subsidiary

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Company derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date that control is lost. This fair value is reflected in the calculation of the gain or loss on disposal attributable to the parent, and becomes the initial carrying amount for subsequent accounting for the retained interest.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

f) Impairment Test of Assets with definite and indefinite useful life

There are specific rules to assess the impairment of long-lived assets, especially property, plant and equipment, goodwill and other intangible assets. On the date of each Financial Statement, the Company performs an analysis to determine if there is evidence that the carrying amount of long-lived assets is impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

The recoverable amount of an asset is determined as the higher of: (a) its fair value less estimated costs of sale and (b) its value in use. The value in use is measured based on discounted cash flows (before taxes) derived from the continuous use of the asset until the end of its useful life.

Regardless of whether or not there is any indication that the carrying amount of the asset may not be recovered, the balances of goodwill arising from business combinations and assets with indefinite useful lives are tested for impairment at least once a year, in December.

When the residual carrying value of the asset exceeds its recoverable amount, the Company recognizes a reduction in this asset s book balance.

For assets recorded at cost, the reduction in recoverable amount must be recorded in income for the year. If the recoverable amount of an asset is not determined individually, the recoverable amount of the business segment to which the asset belongs is analyzed.

Except for the impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined as if the impairment had not been recorded.

The Company evaluates the recoverability of goodwill on investments annually and uses accepted market practices, including discounted cash flow for units with goodwill allocated and comparing the book value with the recoverable amount of the assets.

Recoverability of goodwill is evaluated at each balance sheet reporting date based on the analysis and identification of facts and circumstances that can indicate the necessity to also perform an impairment test at an interim date. If some fact or circumstance indicates that the recoverability of goodwill may be impaired as of an interim period, then the test is performed. In December 2014, the Company carried out goodwill impairment tests for all of its operating segments, which represent the lowest level at which goodwill is monitored by management based on projections for discounted cash flows and that take into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans and long-term economic-financial forecasts.

In December 2014, the Company performed an impairment test for the goodwill on the operating segments and no impairment loss was identified for the year.

In December 2014, the Company also performed impairment test for assets with definite useful life in the Latin America segment and the tests identified a loss of R$ 339,374 thousand due to the lack of expected future use for those assets.

The projection period for the December 2014 cash flows was five years. The premises used to determine the fair value through the discounted cash flow method include: projected cash flow based in the Management estimates to the future cash flows, discount rates and growth rates to the perpetuity determination. Moreover, the perpetuity was calculated considering the stabilization of the operational margins, levels of working capital and investments. The perpetuity growth rate considered was 3% p.a. for the Brazil, Latin America, Specialty Steels and North America segment.

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The pre-tax discount rates used were determined taking into consideration market information available on the test date. The Company adopted distinct rates to each business segment tested with the objective of demonstrating the differences among the markets in which each segment operates, as well as risk associated to them. The pre-tax discount rates used were 11.4% p.a. for the North America segment (11.8% in December, 2013), 12.5% p.a. for the Special Steel segment (12.5% in December, 2013), 11.9% p.a. for Latin America segment (13.3% in December, 2013) and 13.9% p.a. for the Brazil segment (14.5% in December, 2013).

Considering the recoverable amount identified through the discounted cash flows, the recoverable amount exceeded the book value by R$ 1,699 million for the North America segment (R$ 1,244 million in December 2013), R$ 1,591 million for the Special Steel segment (R$ 1,661 million in December 2013), R$ 668 million for the Latin America segment (R$ 431 million in December 2013), and R$ 3,103 million for the Brazil segment (R$ 10,225 million in December 2013).

Due to the cash flow potential impact of discount rate and perpetuity growth rate variables, the Company performed a sensitivity analysis for changes in these variables. A 0.5% increase in the discount rate to the cash flow of each segment would result in recoverable amounts that would exceed the book value by R$ 394 million for the North America segment (R$ 94 million in December 2013), R$ 785 million for the Special Steel segment (R$ 942 million in December 2013), R$ 2,073 million for the Brazil segment (R$ 8,826 million in December 2013) and R$ 186 million for the Latin America segment (R$ 7 million in December 2013).

On the other hand, a 0.5% decrease in the perpetuity growth rate in the discounted cash flow to each segment would result in recoverable amounts that would exceed the book value by R$ 678 million for the North America segment (R$ 361 million in December 2013), R$ 976 million for the Special Steel segment (R$ 1,127 million in December 2013), R$ 2,365 million for the Brazil segment (R$ 9,232 million in December 2013) and R$ 310 million for the Latin America segment (R$ 124 million in December 2013).

As of December 31, 2014, a combination of the sensitivity analysis described in the paragraphs above would result in a recoverable amount lower than the book value by R$ 458 million for the North America segment (R$ 651 million in December 2013) and R$ 122 million for the Latin America segment (R$ 259 million in December 2013). As of December 31, 2014, a combination of the sensitivity analysis described in the paragraphs above would result in a recoverable amount that would exceed the book value by R$ 1,436 million in the Brazil segment (R$ 8,077 million in December 2013) and R$ 262 million for the Special Steel segment (R$ 484 million in December 2013).

Goodwill that forms part of the carrying amount of an investment in an associate or in a joint venture is not separately recognized and it is not tested for impairment separately. Instead, the entire carrying amount of the investment in an associate or in a joint venture is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Goodwill originated in a business combination is evaluated for recoverability on an annual basis, and also when events or circumstances indicate the necessity. The test considers accepted market practices, including cash flows and compares the book value with its fair value. The reversal of goodwill impairment losses previously recognized from business combinations is not allowed. Annually, in December, the Company performs impairment tests for all operating segments, which represents the lowest level in which goodwill is monitored by management.

The recoverability review process is subjective and requires significant judgments through analysis performed. The determination of fair value for the Company s operating segments, based on projected cash flows, may be negatively impacted if the economic global recovery happens slower than what management expected during the preparation of financial statements in December 2014.

Additional information related to impairment of goodwill and other long lived assets are described at note 27 of Consolidated Financial Statements contained herein.

B. LIQUIDITY AND CAPITAL RESOURCES

Gerdau s usual main source of liquidity is the cash generated by its operating activities. Moreover, the Company counts on committed credit facilities. The Company expects to meet its cash needs for 2015 primarily through a combination of operating cash flow, cash and cash equivalents and short-term investments.

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Cash Flow

The table below presents information for the cash flow of the respective years:

GERDAU S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2014, 2013 and 2012

In thousands of Brazilian reais (R$)

	2014	2013	2012	Variation 2014/2013	Variation 2013/2012
Cash flows from operating activities					
Net income for the year	1,488,373	1,693,702	1,496,240	(12.1)%	13.2%
Adjustments to reconcile net income for the year to net cash provided by operating activities					
Depreciation and amortization	2,227,396	2,029,507	1,827,499	9.8%	11.1%
Impairment of Assets	339,374				
Equity in earnings of unconsolidated companies	(101,875)	(54,001)	(8,353)	88.7%	546.5%
Exchange variation, net	476,367	544,156	134,128	(12.5)%	305.7%
(Gains) Losses on financial instruments, net	(36,491)	(2,854)	18,547	1,178.6%	
Post-employment benefits	200,699	95,514	38,665	110.1%	147.0%
Stock based remuneration	39,614	38,223	36,699	3.6%	4.2%
Income tax	(150,389)	(241,056)	63,222	(37.6)%	
(Gains) Losses on disposal of property, plant and equipment and investments	(48,639)	(133,593)	7,890	(63.6)%	
Gains in Joint ventures operations	(636,528)				
Allowance for doubtful accounts	49,890	47,345	50,084	5.4%	(5.5)%
Provision for tax, labor and civil claims	281,876	205,167	171,264	37.4%	19.8%
Interest income on investments	(144,723)	(135,040)	(155,638)	7.2%	(13.2)%
Interest expense on loans	1,178,034	901,273	811,416	30.7%	11.1%
Interest on loans with related parties	(2,743)	(1,573)	(1,594)	74.4%	(1.3)%
Provision for net realisable value adjustment in inventory	63,440	56,752	141,121	11.8%	(59.8)%
Release of allowance for inventory against cost upon sale of the inventory	(69,502)	(61,453)	(86,710)	13.1%	(29.1)%
	5,154,173	4,982,069	4,544,480	3.5%	9.6%
Changes in assets and liabilities					
(Increase) Decrease in trade accounts receivable	(36,468)	(23,790)	168,134	53.3%	
(Increase) Decrease in inventories	(173,191)	1,018,398	(264,366)		(485.2)%
Decrease in trade accounts payable	(251,911)	(128,942)	(522,870)	95.4%	(75.3)%
(Increase) Decrease in other receivables	(701,550)	120,645	(664,819)		
Increase (Decrease) in other payables	280,187	162,863	(314,906)	72.0%	
Dividends from jointly-controlled entities	95,600	63,073	47,667	51.6%	32.3%
Purchases of trading securities	(3,028,974)	(3,360,144)	(2,060,511)	(9.9)%	63.1%

Proceeds from maturities and sales of trading securities	2,544,895	2,481,935	4,444,636	2.5%	(44.2)%
Cash provided by operating activities	3,882,761	5,316,107	5,377,445	(27.0)%	(1.1)%
Interest paid on loans and financing	(859,821)	(810,362)	(698,070)	6.1%	16.1%
Income and social contribution taxes paid	(452,079)	(407,333)	(335,328)	11.0%	21.5%
Net cash provided by operating activities	2,570,861	4,098,412	4,344,047	(37.3)%	(5.7)%

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Cash flows from investing activities					
Additions to property, plant and equipment	(2,266,702)	(2,598,265)	(3,127,256)	(12.8)%	(16.9)%
Proceeds from sales of property, plant and equipment, investments and other intangibles	1,067,938	237,203	35,334	350.2%	571.3%
Additions to other intangibles	(141,956)	(158,395)	(156,805)	(10.4)%	1.0%
Advance for capital increase in jointly-controlled entity		(77,103)	(206,214)		(62.6)%
Cash and cash equivalents consolidated in business combinations			16,916		
Payment for business acquisitions, net of cash of acquired entities		(55,622)			
Increase in controlling interest in associated companies		(51,383)			
Net cash used in investing activities	(1,340,720)	(2,703,565)	(3,438,025)	(50.4)%	(21.4)%
Cash flows from financing activities					
(Reduction) Increase of capital by non-controlling interests	(550,000)	383,788	(116,685)		
Purchase of treasury shares			(44,932)		
Proceeds from exercise of shares	5,483	35,465	5,269	(84.5)%	573.1%
Dividends and interest on capital paid	(455,139)	(426,988)	(523,076)	6.6%	(18.4)%
Proceeds from loans and financing	2,771,048	5,011,654	1,767,350	(44.7)%	183.6%
Repayment of loans and financing	(2,173,555)	(5,223,100)	(2,105,228)	(58.4)%	148.1%
Intercompany loans, net	8,939	46,933	(18,992)	(81.0)%	
Increase in controlling interest in subsidiaries	(130,199)	(33,090)		293.5%	
Put-Options on non-controlling interest		(599,195)			
Net cash used in financing activities	(523,423)	(804,533)	(1,036,294)	(34.9)%	(22.4)%
Exchange variation on cash and cash equivalents	244,029	71,675	90,908	240.5%	(21.2)%
Increase (Decrease) in cash and cash equivalents	950,747	661,989	(39,364)	43.6%	
Cash and cash equivalents at beginning of year	2,099,224	1,437,235	1,476,599	46.1%	(2.7)%
Cash and cash equivalents at end of year	3,049,971	2,099,224	1,437,235	45.3%	46.1%

Cash and cash equivalents totaled R$ 3,050 million, R$ 2,099 million and R$ 1,437 million on December 31, 2014, 2013 and 2012, respectively, as analyzed below:

Net cash provided by operating activities

Net cash provided from operating activities totaled R$2,571 million, R$4,098 million and R$4,344 million in the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

In 2014, net cash provided from operating activities decreased 37.3% from 2013, largely due to the increase in working capital and Increase in other receivables . With regard to working capital, the increase of R$36 million in trade accounts receivable and of R$173 million in inventories, and the reduction of R$252 million in trade accounts payable had a negative impact of R$461 million on the Company s cash from operating activities in 2014. In 2013, this impact was positive in the amount of R$865 million due to the increase of R$24 million in trade accounts receivable, as well as the reduction of R$1,018 million in inventories and of R$129 million in trade accounts payable. The main factor behind the negative impact of R$461 million in the Company s cash from operations in 2014 was the increase in inventories, especially in the North

America Business Operation, driven by the adjustment of inventory levels to better meet client needs, given the continued strong demand from the non-residential construction and industrial sectors. The item Increase in other receivables largely refers to higher judicial deposits and advances to suppliers in 2014.

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In 2013, net cash provided from operating activities decreased 5.7% compared to 2012. The better operating result in 2013, combined with the release of R$865 million in working capital in the period, supported an increase in the level of financial investments by the Company, resulting in relative stability in cash generated by operating activities before the payment of interest and income tax in the comparison periods (R$5,377 million in 2012 and R$5,316 million in 2013). On the other hand, the increase in interest payments in fiscal year 2013 (from R$698 million in 2012 to R$810 million in 2013) resulting from the bond issue in April 2013 and the increase in payments of income tax and social contribution tax (from R$335 million in 2012 to R$407 million in 2013) due to the higher operating result in the period led net cash from operating activities to decline from R$4,344 million in 2012 to R$4,098 million in 2013. With regard to working capital, the increase of R$24 million in trade accounts receivable, the reduction of R$1,018 million in inventories and the reduction of R$129 million in trade accounts payable had a positive impact of R$865 million on the Company s cash from operating activities in 2013. In 2012, this impact was negative in the amount of R$619 million due to the reduction of R$168 million in trade accounts receivable, the increase of R$264 million in inventories and the reduction of R$523 million in trade accounts payable. The main factor resulting in the positive impact of R$865 million on the company s operating cash in 2013 was the reduction in inventories, especially in the Brazil and North America Business Operations, which is explained by the efforts made over the course of the period to reduce working capital.

Cash conversion cycle

In 2014, as a result of the increase in working capital(1) (+8.2%), compared to the increase in net sales (+5.1%) in the last three months of 2014 in relation to the last three months of 2013, the cash conversion cycle(2) increased three days, from 81 days on December 31, 2013 (36 days of trade accounts receivable, 74 days of inventories and 29 days of trade accounts payable) to 84 days on December 31, 2014 (37 days of trade accounts receivable, 74 days of inventories and 27 days of trade accounts payable).

In 2013, as a result of the increase in working capital, compared to the increase in net sales in the last quarter of 2013 in relation to the last quarter of 2012, the cash conversion cycle decreased from 97 days at December 31, 2012 (37 days of trade accounts receivable, 91 days of inventories and 31 days of trade accounts payable) to 81 days at December 31, 2013 (36 days of trade accounts receivable, 74 days of inventories and 29 days of trade accounts payable). The main positive impact was on the inventories line, which reduced by 17 days between 2013 and 2012, due to initiatives done to reduce the Company s working capital. The lines trade accounts receivable and trade accounts payable, which are also components of the cash conversion cycle, did not present material variations in 2013 compared to 2012.

Net cash used in investing activities

Net cash used in investing activities decreased by 50.4%, from R$2,704 million in the year ended December 31, 2013 to R$1,341 million in 2014, chiefly by cash received through divestments (mainly the sale of 50% interest in Gallatin Steel Company), in addition to the reduction in investments in fixed assets in 2014.

Net cash used in investing activities decreased by 21.4%, from R$ 3.438 million in the fiscal year ended December 31, 2012 to R$ 2.704 million in 2013, mainly due to the reduction in capital expenditures in 2013. This reduction was due to the maturation of the transformational investment cycle that has occurred in recent years and the alignment with the Company s strategy in being more selective in approving their investments.

Net cash used in financing activities

Net cash from financing activities decreased from R$ 805 million in the fiscal year ended December 31, 2013 to R$ 523 million in 2014. The change reflects the following factors: in 2014, there was a reduction of R$ 550 million in the capital of non-controlling shareholders invested in a fixed-income investment fund; in 2014, the company obtained net loans and financing of R$ 597 million, compared to a net payment of loans and financing of R$ 211 million in 2013; and in 2013, the Company settled an obligation for stock purchase of R$ 599 million, related to the acquisition of a 40% interest in Sidenor, held by the Santander Group.

Cash flow from financing activities went from the use of R$ 1,036 million in the fiscal year ended December 31, 2012 to the use of R$ 805 million in 2013. This variation reflected the following factors: in 2013, the Company settled a put-option on non-controlling interest of R$ 599 million, for the acquisition of the 40% stake in Sidenor owned by Grupo Santander; and on the other hand, there was a positive variation from the financial application in a fixed income investment fund of R$ 500 million, when comparing the fiscal year 2012 and 2013.

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(1) *Working capital: trade accounts receivable plus inventories less suppliers (based on the balance at end of period for all accounts).*

(2) *Cash Conversion Cycle: working capital divided by net sales (in the last three months), multiplied by 90.*

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Indebtedness

The Company s debt is used to finance investments in fixed assets, including the modernization and technological upgrade of its plants and the expansion of installed capacity, as well as for working capital, acquisitions and, depending on market conditions, short-term financial investments.

The following table profiles the Company s debt in the years ended December 31, 2014, 2013 and 2012 (in thousands of Brazilian *reais*):

	2014	2013	2012
SHORT TERM:	**2,037,869**	**1,838,367**	**2,582,353**
Total short-term debt	**1,356,450**	**1,367,414**	**1,806,173**
Debt denominated in Brazilian *reais*	78,815	463,996	393,579
Debt denominated in foreign currency	1,277,635	903,418	1,412,594
Current portion of long-term debt	**681,419**	**443,369**	**518,201**
Debentures		**27,584**	**257,979**
LONG TERM:	**17,483,616**	**14,868,408**	**12,086,202**
Total long-term debt	**17,829,999**	**14,924,866**	**12,244,069**
Debt denominated in Brazilian *reais*	3,402,545	2,539,761	1,879,729
Debt denominated in foreign currency	14,427,454	12,385,105	10,364,340
Current portion of long-term debt	**(681,419)**	**(443,369)**	**(518,201)**
Debentures	**335,036**	**386,911**	**360,334**
TOTAL DEBT:	**19,521,485**	**16,706,775**	**14,668,555**
Short and long-term investments, cash and cash equivalents	5,848,805	4,222,392	2,496,840
NET DEBT(1)	**13,672,680**	**12,484,383**	**12,171,715**

(1) The calculation of net debt is made by subtracting short-term investments, cash and cash equivalents from total debt. Net debt is not a GAAP measure recognized under IFRS and should not be considered in isolation from other financial measures. Other companies may calculate net debt differently and therefore this presentation of net debt may not be comparable to other similarly titled measures used by other companies.

Total debt amounted to R$ 19,521 million, R$ 16,707 million and R$ 14,669 million in the fiscal years ended December 31, 2014, 2013 and 2012, respectively. The increase in total debt from 2013 to 2014 is explained by the exchange variation in the period on debt denominated in foreign currencies (mainly the 13.4% depreciation in the closing rate of the Brazilian real against the U.S. dollar) and by new debt contracted in Brazilian real to meet investment. The cash position, on the other hand, increased 38.5%, mainly due to the proceeds received from the divestment of Gallatin Steel Company (sales price of R$ 937.8 million). Net debt increased 9.5% from R$ 12,484 million in 2013 to R$ 13,673 million in 2014, due to an increase in total debt, partially offset by an increase in the cash position. In 2013, net debt increased from R$ 12,172 million in 2012 to R$ 12,484 million in 2013, this increment of R$ 312 million is due an increase in total debt, partially compensated by the increase in cash and cash equivalents. The increase in cash and cash equivalents, from December 2012 to December 2013, was due to the working capital reduction in the period and, to a lesser extent, to the higher operating cash generation. In 2013, total debt increased mainly due to the effects of exchange variation on foreign-denominated debt.

Of the total debt on December 31, 2014, short term debt corresponded to 10.4% and long-term debt to 89.6% (on December 31, 2013, 11.0% was short-term debt and 89.0% was long-term debt, and on December 31, 2012, 17.6% was short-term debt and 82.4% was long-term debt).

On December 31, 2014, the total short-term debt amounted to R$1,356 million, relatively stable compared to 2013, due to the offsetting effects between real-denominated and foreign-denominated debt. Short-term debt in Brazilian real decreased as a result of the extension of the debt average payment terms. On the other hand, the short-term debt denominated in foreign currencies increased 41.4%, due to debt of companies abroad maturing in 2015, which were previously classified as long-term debt, and to exchange variation effects in the period. On December 31, 2013, the Company s short-term debt amounted to R$ 1,367 million. Of this total, R$

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464 million was related to financing in Brazilian reais and R$ 903 million to financing in foreign currencies. In 2013, short-term debt plus the current portion of long-term debt and debentures amounted to R$ 1,838 million, representing a decrease of 28.8% relative to 2012, this decrease was related to the Company s bond issue in April 2013, in the amount of US$ 750 million, sought to lengthen the average debt term, which increased to 5.7 years in June 2013.

On December 31, 2014, the Company s total long-term debt amounted to R$ 17,830 million, an increase of 19.5% from 2013. The long-term term denominated in Brazilian real increased due to the extension of the debt average payment terms and to new debt contracted to meet investment needs. In addition, the long-term debt denominated in foreign currencies increased due to the effect of exchange variation (13.4% depreciation in the closing rate of the Brazilian real against the U.S. dollar) and to the issue of the 2044 Bond in April 2014. On December 31, 2013, the Company s long-term debt amounted to R$ 14,925 million. Of this total, R$ 2,540 million was denominated in Brazilian reais and R$ 12,385 million in foreign currencies. In 2013, long-term debt plus the current portion of long-term debt and debentures amounted to R$ 14,868 million, representing an increase of 23.0% relative to 2012, mainly due to the effects of exchange variation on foreign-denominated debt over the course of 2013.

As of December 31, 2014, the maturity profile of the Company s long-term debt with financial institutions, including debentures, was as follows:

Gerdau S.A. Consolidated

Long-Term Amortization	**(R$ million)**
2016	893,003
2017	3,151,662
2018	754,884
2019	671,039
2020 and After	12,013,028
Total	**17,483,616**

Financial Agreements

We highlight the material financial agreements outstanding at year end 2014:

Commercial Facility Agreement

On November 5, 2010, the subsidiary Gerdau Açominas S.A. entered into a loan agreement in the total amount of US$ 40.5 million with Deutsche Bank AG, London Branch. The Company guarantees this transaction. On December 31, 2014, the outstanding balance of this facility was US$ 20.3 million (R$ 53.9 million as of December 31, 2014).

JPMorgan Working Capital

On July 30, 2012, the subsidiary Diaco S.A. entered into a working capital financing agreement with JPMorgan Chase Bank in the total amount of US$ 60 million, denominated in Colombian Pesos (COP) and final maturity in August, 2015. The outstanding amount of this facility was US$ 44.9 million as of December 31, 2014 (R$ 119.3 million as of December 31, 2014) and the Company guarantees this transaction.

SC Loan Agreement

On December 26, 2012, the subsidiary Gerdau Steel India entered into a loan agreement in the amount of US$ 65 million, denominated in Indian Rupees (INR), with Standard Chartered Bank, with a tenor of three years. The outstanding amount of this facility was US$ 37 million as of December 31, 2014 (R$ 98.3 million as of December 31, 2014) and the Company guarantees this transaction.

ECGD - Export Credits Guarantee Department

During 2014, the subsidiary Gerdau Açominas S.A. borrowed US$ 14.8 million under a financing agreement signed in 2011 covered by ECGD (Export Credits Guarantee Department), the English Export Credit Agency (ECA), with the banks Deutsche Bank AG, London Branch, HSBC Limited, Tokyo Branch, Citibank Europe plc and BNP Paribas. On December 31, 2014, the outstanding balance of this facility was US$ 178 million (R$ 472.8 million as of December 31, 2014).

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Bonds

The Company, through its subsidiaries GTL Trade Finance Inc., Gerdau Holdings Inc. and Gerdau Trade Inc., concluded in 2007, 2009, 2010, 2013 and 2014, the issuance of bonds each with maturity of 10 and 30 years (collectively Ten/Thirty Years Bond). The following companies guaranteed these transactions: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. On December 31, 2014, the outstanding balance of these bonds was R$ 13.1 billion.

Tokyo Loan Agreement

On June 6, 2013 the subsidiary Gerdau Steel India entered into a loan agreement in the amount of US$ 40 million, denominated in INR, with The Bank of Tokyo-Mitsubishi, with a tenor of five years. The outstanding amount of this facility was US$ 40 million as of December 31, 2014 (R$ 106.2 million as of December 31, 2014) and the Company guarantees this transaction.

NCE Banco do Brasil (R$660MM)

On September 24, 2013, the subsidiary Gerdau Açominas issued an Export Credit Note worth R$ 660 million, maturing on August 18, 2020, with Banco do Brasil S.A. acting as the creditor. On December 31, 2014, the outstanding balance of the facility was R$ 635 million.

JPMorgan Loan Agreement

On October 17, 2013, the subsidiary Diaco S.A. entered into a loan agreement with JPMorgan Chase Bank in the total amount of US$ 40 million, denominated in Colombian Pesos (COP). The outstanding amount of this facility was US$ 31.4 million as of December 31, 2014 (R$ 83.4 million as of December 31, 2014) and the Company guarantees this transaction.

HSBC Loan Agreement

On December 19, 2013, the subsidiary Gerdau Steel India entered into a loan agreement in the amount of US$ 25 million with HSBC, with a tenor of five years. The outstanding amount of this facility was US$ 25 million as of December 31, 2014 (R$ 66.4 million as of December 31, 2014) and the Company guarantees this transaction.

EXIM PSI BNDES

In December 2013 the Company raised R$ 91.8 million through the BNDES Program EXIM PSI, with a tenor of three years.

In July and August 2014 the Company raised R$ 100 million through the BNDES Program EXIM PSI, with a tenor of three years.

Sumitomo Credit Agreement

On March 19, 2014, the associated company Gerdau Corsa entered into a loan agreement in the amount of US$ 75 million, denominated in Mexican Pesos, with Sumitomo Mitsui Banking Corporation, with a tenor of five years. The outstanding amount of this facility was US$ 67.3 million as of December 31, 2014 (R$ 178.8 million as of December 31, 2014) and the Company guarantees this transaction.

NCE Banco do Brasil (R$500MM)

On March 21, 2014, the subsidiaries Gerdau Açominas and Gerdau Aços Especiais issued an Export Credit Note worth R$ 500 million, maturing on February 16, 2020, with Banco do Brasil S.A. acting as the creditor. On December 31, 2014, the outstanding balance of the facility was R$ 500 million.

BBVA Credit Agreement

On June 12, 2014, the associated company Gerdau Corsa entered into a loan agreement in the amount of US$ 120 million, denominated in Mexican Pesos, with BBVA with a tenor of eighteen months. The outstanding amount of this facility was US$ 105.9 million as of December 31, 2014 (R$ 281.3 million as of December 31, 2014) and the Company guarantees this transaction.

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Scotiabank Credit Agreement

On August 14, 2014, the associated company Gerdau Corsa entered into a loan agreement in the amount of US$ 110 million, denominated in Mexican Pesos, with Scotiabank with a tenor of eighteen months. The outstanding amount of this facility was US$ 97.2 million as of December 31, 2014 (R$ 258.2 million as of December 31, 2014) and the Company guarantees this transaction.

HSBC Loan Agreement

On September 3, 2014, the associated company Gerdau Corsa entered into a loan agreement in the amount of US$ 100 million, denominated in Mexican Pesos, with HSBC with a tenor of eighteen months. The outstanding amount of this facility was US$ 89.7 million as of December 31, 2014 (R$ 238.3 million as of December 31, 2014) and the Company guarantees this transaction.

All loans contracted under the FINAME/BNDES program, totaling R$ 85.1 million, on the balance sheet date are secured by the assets being financed.

Covenants

As an instrument to monitor the financial condition of the Company by its creditors, financial covenants are used in certain financial agreements.

All covenants mentioned below are calculated based on the Consolidated Financial Statements under IFRS of Gerdau S.A., as described below:

I) Net Interest Coverage Ratio measures the net interest expense payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio requires that the EBITDA for the last 12 months should represent at least 3 times of the interest expense of the same period. As of December 31, 2014 such covenant was 5.1 times.

II) Net Leverage Ratio measures the level of net debt in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio requires that the net debt should not surpass 4 times the EBITDA for the last 12 months. As of December 31, 2014 such covenant was 2.4 times.

III) Current Ratio measures the company s ability in fulfilling its short term obligations. The contractual terms requires that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of December 31, 2014 the current ratio was 2.7 times.

The Company discloses to the market the adjusted EBITDA (earnings before interest, income tax and social contribution, depreciation, amortization and reversal (losses) from the non-recoverability of assets and restructuring costs). Adjusted EBITDA is not a measure used in generally accepted accounting practices and does not represent cash flow in the periods presented, and therefore should not be considered an alternative to cash flow as a liquidity indicator. Adjusted EBITDA is not standardized and thus is not comparable to the Adjusted EBITDA of other companies.

Pursuant to the agreements, the penalty for non-compliance with such covenants is the possibility of a declaration of default by the banks and acceleration of maturity of the Company s loans.

As of December 31, 2014 and as of the date of this Annual Report on Form 20-F, the Company was in compliance with all contractual covenants related to its financial agreements.

Based on the Company s internal forecasts, the Company does not expect to be in breach of any of the financial covenants over the next twelve months. Nevertheless, this forecast can be affected positively or negatively by global economics and the steel market.

Credit Lines

In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau S.A.) entered into a credit line with BNDES in the total amount of R$ 1.5 billion bearing an interest rate of TJLP + 2.16% per annum when drawn. On December 31, 2014 the outstanding amount was R$ 924.7 million.

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On December 16, 2013, the Company concluded the roll-over and increase of its Senior Unsecured Global Working Capital Credit Agreement which is a US$ 1.5 billion revolving credit line with the purpose of providing liquidity to its subsidiaries. The following companies guarantee this agreement: Gerdau S.A, Gerdau Açominas S.A, Gerdau Aços Longos S.A and Gerdau Aços Especiais S.A. The line is divided into two tranches, being US$ 500 million for Gerdau s North American subsidiaries borrowing needs and the other US$ 1 billion for Gerdau s Latin American and Spanish subsidiaries borrowing needs. This transaction has a tenor of 3 years. As of December 31, 2014, the outstanding loans under the line totaled US$ 305.9 million (R$ 812.5 million as of December 31, 2014) and are classified as working capital (US$).

Derivatives, Off-Balance Sheet Arrangements and Contractual Obligations

For more details see item 5-E OFF BALANCE SHEET ARRANGEMENTS

Guarantees Granted

The Company has guaranteed the financing contracts of Gerdau Açominas S.A. in the total amount of R$ 2 billion on December 31, 2014.

Empresa Siderúrgica del Perú S.A.A.

The Company is the guarantor for the subsidiary Siderperu, Co-Borrower of the global credit line, for working capital financing in the amount of US$ 30 million on December 31, 2014 (R$ 79.7 million as of December 31, 2014).

The Company is also the guarantor for the subsidiary Siderperu for a loan agreement in the amount of US$ 100 million with Bank of Tokyo. On December 31, 2014 the outstanding amount of this facility was US$ 100 million (R$ 265.6 million as of December 31, 2014).

The Company is also the guarantor for the subsidiary Siderperu for a loan agreement in the amount of US$ 75 million with Banco Safra. On December 31, 2014 the outstanding amount of this facility was US$ 22.5 million (R$ 59.8 million as of December 31, 2014).

Gerdau Steel India Limited

The Company is the guarantor for the subsidiary Gerdau Steel India for a loan agreement in the amount of US$ 65 million, denominated in Indian Rupees (INR), with Standard Chartered Bank issued in December, 2012, with a tenor of three years. The outstanding amount of this facility was US$ 37 million as of December 31, 2014 (R$ 98.3 million as of December 31, 2014).

The Company is the guarantor for the same subsidiary for a loan agreement in the amount of US$ 40 million, denominated in INR, with The Bank of Tokyo-Mitsubishi issued in September, 2013, with a tenor of five years. On December 31, 2014, the outstanding balance of this facility was US$ 40 million (R$ 106.2 million as of December 31, 2014).

The Company is the guarantor for the same subsidiary for a financing contract in the amount of US$ 25 million with HSBC issued in December, 2013, with a tenor of five years. On December 31, 2014, the outstanding balance of this facility was US$ 25 million (R$ 66.4 million as of December 31, 2014).

Gerdau Metaldom S.A.

The Company is the guarantor for the associated company Gerdau Metaldom S.A. for a financing contract in the amount of US$ 34.9 million covered by SACE. On December 31, 2014 the outstanding amount of this facility was US$ 17.5 million (R$ 46.5 million as of December 31, 2014)

The Company is the guarantor for the same associated company, Co-Borrower of the global credit line, for working capital financing in the amount of US$ 20.9 million (R$ 55.5 million as of December 31, 2014).

Bonds

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Açominas S.A. and Gerdau Aços Especiais S.A. are guarantors for GTL Trade Finance Inc., Gerdau Holdings Inc. and Gerdau Trade Inc. for the issuance of bonds with maturity of 10 and 30 years. On December 31, 2014 the outstanding balance of these facilities was R$ 13.1 billion.

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Dona Francisca S.A.

The Company is the guarantor of the jointly-owned subsidiary Dona Francisca S.A. for financing contracts in the amount of R$ 2.6 million on December 31, 2014, corresponding to a joint liability of 51.82% of the amount.

Diaco S.A.

The Company is the guarantor for the subsidiary Diaco S.A. for a working capital facility with BBVA in the total amount of US$ 40 million, denominated in Colombian Pesos (COP). On December 31, 2014, the outstanding amount of this facility was US$ 21 million (R$ 55.8 million as of December 31, 2014).

The Company is the guarantor for the subsidiary Diaco S.A, Co-Borrower of the global credit line, for a working capital financing in the amount of US$ 10 million (R$ 26.6 million as of December 31, 2014), US$ 20 million (R$ 53 million as of December 31, 2014) and US$ 50 million (R$ 132.8 million as of December 31, 2014).

The Company is the guarantor for the same subsidiary for loan agreements with JPMorgan Chase Bank in the amounts of US$ 60 million and US$ 40 million, both denominated in Colombian Pesos (COP) with maturity in August 2015 and October 2016, respectively. On December 31, 2014, the outstanding balance of these facilities was US$ 44.9 million (R$ 119.3 million as of December 31, 2014) and US$ 31.4 million (R$ 83.4 million as of December 31, 2014).

Comercializadora Colombiana de Carbones y Coques S.A. C.I.

The Company is the guarantor for the subsidiary Comercializadora Colombiana de Carbones y Coques S.A. C.I. (Coquecol), Co-Borrower of the global credit line, for working capital financing in the amount of US$ 11 million (R$ 29.2 million as of December 31, 2014).

The Company is the guarantor for the subsidiary Coquecol for a loan agreement with Mizuho Bank in the amount of US$ 15 million. On December 31, 2014 the outstanding amount of this facility was US$ 15 million (R$ 39.8 million as of December 31, 2014).

Steelchem Trading Corporation

The Company is the guarantor for the subsidiary Steelchem Trading Corporation, Co-Borrower of the global credit line, for working capital financing in the amount of US$ 28 million (R$ 74.4 million as of December 31, 2014), and US$ 12 million (R$ 31.9 million as of December 31,

2014).

Gerdau Corsa, S.A.P.I. de C.V.

The Company is the guarantor for the associated Gerdau Corsa, S.A.P.I. de C.V. and the subsidiary Sidertul S.A. de C.V. for a working capital facility with HSBC in the amount of US$ 140 million, denominated in Mexican Pesos (MXN). As of December 31, 2014 the outstanding balance of this facility with Gerdau Corsa was US$ 108.7 million (R$ 288.7 million as of December 31, 2014).

The Company is the guarantor for the associated Gerdau Corsa for the credit agreement with Sumitomo Mitsui Banking Corporation in the amount of US$ 75 million, denominated in Mexican Pesos, with a tenor of five years. The outstanding amount of this facility was US$ 67.3 million as of December 31, 2014 (R$ 178.8 million as of December 31, 2014) and the Company guarantees this transaction.

The Company is the guarantor for the associated Gerdau Corsa for the loan agreement in the amount of US$ 120 million, denominated in Mexican Pesos, with BBVA with a tenor of eighteen months. The outstanding amount of this facility was US$ 105.9 million as of December 31, 2014 (R$ 281.3 million as of December 31, 2014) and the Company guarantees this transaction.

The Company is the guarantor for the associated Gerdau Corsa for the loan agreement in the amount of US$ 110 million, denominated in Mexican Pesos, with Scotiabank with a tenor of eighteen months. The outstanding amount of this facility was US$ 97.2 million as of December 31, 2014 (R$ 258.2 million as of December 31, 2014) and the Company guarantees this transaction.

The Company is the guarantor for the associated Gerdau Corsa for the loan agreement in the amount of US$ 100 million, denominated in Mexican Pesos, with HSBC with a tenor of eighteen months. The outstanding amount of this facility was US$ 89.7 million as of December 31, 2014 (R$ 238.3 million as of December 31, 2014) and the Company guarantees this transaction.

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Sidertul, S.A. de C.V.

The Company is the guarantor for the associated Gerdau Corsa, S.A.P.I. de C.V. and the subsidiary Sidertul S.A. de C.V.for a working capital facility with HSBC in the amount of US$ 140 million, denominated in Mexican Pesos (MXN). As of December 31, 2014 the outstanding balance of this facility with Sidertul was US$ 17 million (R$ 45.2 million as of December 31, 2014).

Gerdau Aços Especiais

The Company provides guarantee for its subsidiary Gerdau Aços Especiais in a purchase contract of electric energy in the total amount of R$ 8 million as of December 31, 2014.

Aceros Corsa

The Company is the guarantor for the associated company Aceros Corsa, Co-Borrower of the global credit line, for working capital financing in the amount of US$ 20 million, denominated in Mexican Pesos. On December 31, 2014 the outstanding amount of this facility was US$ 17.5 million (R$ 46.5 million as of December 31, 2014).

Derivatives

Risk management objectives and strategies**:** The Company understands that it is subject to different market risks, such as fluctuations in exchange rates, interest rates and commodity prices. In order to carry out its strategy for profitable growth, the Company implements risk management strategies with the objective of mitigating such market risks.

The Company s objective when entering into derivative transactions is always related to mitigation of market risks as stated in our policies and guidelines. All outstanding derivative financial instruments are monthly reviewed by the Cash and Debt Management Committee, which validates the fair value of such financial instruments. All gains and losses in derivative financial instruments are recognized by its fair value in the Consolidated Financial Statements of the Company.

Policy for use of derivatives: according to internal policy, the financial result must arise from the generation of cash from its business and not gains from the financial market. The Company uses derivatives and other financial instruments to reduce the impact of market risks on its financial assets and liabilities or future cash flows and earnings. Gerdau has established policies to assess market risks and to approve the use of derivative financial instruments transactions related to those risks. The Company enters into derivative financial instruments to manage the above mentioned market risks and never for speculative purposes.

Policy for determining fair value: the fair value of the derivative financial instruments is determined using models and other valuation techniques, which involve future prices and curves discounted to present value as of the calculation date. Amounts are gross before taxes. Due to changes in market rates, these amounts can change up to the maturity or in situations of anticipated settlement of transactions.

The derivative financial instruments may include: non deliverable forwards (NDFs), cross currency swaps and interest rate swaps.

Dollar forward contracts: the Company entered into NDF operations (Non Deliverable Forward) in order to mitigate the foreign exchange risk on liabilities denominated in foreign currencies, mainly U.S. dollar. The counterparties of these transactions are financial institutions with low credit risk.

Swap Contracts: the Company entered into cross currency swap, designated as a cash flow hedge, contract whereby it receives a variable interest rate based on LIBOR in US dollars and pays a fixed interest rate based in the local currency. The counterparties to these transactions are financial institutions with low credit risk.

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Forward							
Maturity at 2015			US$80,0 million		41,751		
***Interest rate** *swap**							
Maturity between 2017 and 2018	receivable under the swap payable under the swap	Libor 6M +2% - 2.25% 10.17% - 11.02%	US$25.0 million US$40.0 million	US$25.0 million US$40.0 million		(8,999)	(3,009)

The efects of financial instruments are classified as follow:

Unrealized gains on financial instruments		
	41,751	319
Current liabilities		(274)
	(8,999)	(3,283)
Net Income		
Losses on financial instruments	(7,201)	(12,136)
Other comprehensive income		
	(5,989)	5,363

For further information regarding swap contracts (interest rate swap and cross currency swap) refer to Note 15 Financial Instruments, item e) Operations with Derivative Financial Instruments.

Capital Expenditure

2014 Capital Expenditure

In fiscal year 2014, capital expenditure on fixed assets was R$ 2,266.7 million. Of this total, 40.0% was allocated to the operations in Brazil and the remaining 60.0% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Operation a total of R$ 907.6 million was invested in this operation for capital expenditure. The main highlight was the installation work of flat steel rolling mill (heavy plates) at Ouro Branco mill. Currently, the project is in the phase of installation of the metal structures of the buildings and electromechanical installation of the equipment.

North America Business Operation this business operation spent R$ 308.7 million for capital expenditure on fixed assets distributed throughout the units which compose this business operation. This amount was mainly spent for the maintenance of the production units.

Latin America Business Operation in 2014, the Latin American units spent R$ 320.5 million for capital expenditure on fixed assets distributed among the countries in which the units from this business operation are located. Part of this investment is being used to build a new melt shop in Argentina, which will have a capacity of 650,000 tonnes of steel per year.

Special Steel Business Operation the special steel units spent R$ 569.0 million in 2014 for capital expenditure. Part of this investment was to finalize the installation of the new special steel rolling mill at Monroe mill in the USA. Additionally, the Company concluded the installation of a new continuous casting in St. Paul in Minnesota (USA).

Iron Ore Business Operation the business operation spent R$ 160.9 million in 2014 for capital expenditure on fixed assets. This amount was mainly spent for the maintenance of the operation.

2013 Capital Expenditure

In fiscal year 2013, capital expenditure on fixed assets was R$ 2,598.3 million. Of this total, 62.4% was allocated to the operations in Brazil and the remaining 37.6% was allocated to the other operations among the countries in which Gerdau operates.

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Brazil Business Operation a total of R$ 1,530.3 million was invested in this operation for capital expenditure. Part of this investment was for the startup of the hot rolled coil rolling mill, which happened in August 2013, and also for the new heavy plate rolling mill, both investments in the Ouro Branco mill. Another investment was the development of the mining project, leading the Company to achieve the production capacity of 11.5 million tonnes of iron ore per year. Moreover, the Company continued its investment for the new wire rod and rebar rolling mill at the Cosigua mill.

North America Business Operation this business operation spent R$ 370.4 million for capital expenditure on fixed assets distributed throughout the units which compose this business operation. This amount was mainly spent for the maintenance of the production units.

Latin America Business Operation in 2013, the Latin American units spent R$ 173.3 million for capital expenditure on fixed assets distributed among the countries in which the units from this business operation are located. A major part of this investment was for the capacity expansion of crude and rolled steel in Colombia.

Special Steel Business Operation the special steel units spent R$ 524.3 million in 2013 for capital expenditure. Part of this investment was to finalize the installation of the new special steel rolling mill at the Pindamonhangaba mill. Additionally, the Company continued to invest in India and in its Monroe mill in the USA.

2012 Capital Expenditure

In fiscal year 2012, capital expenditures for fixed assets were R$ 3,127.3 million. Of this total, 70.9% was allocated to the operations in Brazil and the remaining 29.1% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Operation a total of R$ 1,917.7 million was invested in this operation for capital expenditure. The Ouro Branco mill completed investments in a hot rolled coil mill, with a capacity of 800,000 tonnes per year, and started the production tests. Another investment was the development of the mining project, leading the Company to achieve self-sufficiency in iron ore by the end of 2012. Moreover, the Company also started its investment for the new wire rod and rebar rolling mill at the Cosigua mill.

North America Business Operation this business operation spent R$ 355.0 million, for capital expenditure on fixed assets distributed throughout the units which compose this business operation. Part of this investment was for the reheat furnace at the mill in Calvert City, Kentucky.

Latin America Business Operation in 2012, the Latin American units spent R$ 197.9 million, for capital expenditure on fixed assets distributed among the countries in which the units from this business operation are located.

Special Steel Business Operation the special steel units spent R$ 656.7 million in 2012, for capital expenditure. A major part of this investment was for the installation of a new special steel rolling mill at Pindamonhangaba mill, which should start up in the second half of 2013. The Company also invested to build a new continuous casting unit for production capacity increase at the Monroe mill.

Main Capital Expenditure Currently in Progress

The disbursements in fixed assets planned for 2015 are estimated at R$ 1.9 billion, and include both strategic and maintenance investments. The table below shows the main projects for the years to come:

Investment Plan Main Projects	Location	Additional rolling capacity (1,000 tonnes)	Start-up
Brazil Business Operation			
Flat steel rolling mill (heavy plates) at Ouro Branco mill-MG	Brazil	1,100	2016
New melt shop at Riograndense mill-RS(1)	Brazil	650	2016
Latin America Business Operation			
New structural profile rolling mill in Mexico (Gerdau Corsa)(2)	Mexico	700	2015
New melt shop in Argentina	Argentina	650	2016
Special Steel Business Operation			
Coke plant and power generation plant in India mill	India		2015

(1) This capacity is not included in the consolidated figures since it is a joint venture.

(2) Replacement of the current melt shop (450,000 tonnes capacity).

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C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES, ETC.

All Gerdau mills have a Quality Management System supported by a wide array of quality control tools. Product development projects are headed by specialists who use quality tools such as Six Sigma , a set of statistical methods for improving the assessment of process variables, and the concept of Quality Function Deployment , a methodology through which technicians can identify and implement the customer requirements.

Given this level of quality management, 45 mills are ISO 9001 or ISO TS 16949 certified as well as a sort of products and laboratories certification according demands. In general, production, technical services and quality teams are responsible for developing new products to meet customer and market needs.

Gerdau uses a Quality Management System developed in house that applies tests for product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies also exist to assure the manufactured product high standards of quality. Gerdau s technical specialists do planned visits, some are randomly selected and some are scheduled visits, to its customers to check on the quality of the delivered products in order to guarantee the final user satisfaction for products purchased indirectly.

The Knowledge Management Portal is used to share information among all steel mills seeking performance improvements and leverage of process knowledge supported by Communities of Practice and technical specialists.

Due to the specialized nature of its business, the Gerdau special steel mills are constantly investing in technological upgrading and in research and development. These mills are active in the automotive segment and maintain a technology department (Research and Development) responsible for new products and the optimization of existing processes.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment that Gerdau uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment. Gerdau has technology transfer and benchmarking agreements with worldwide recognized performance companies.

As is common with mini-mill steelmakers, Gerdau usually acquires technology in the market rather than develops new technology through intensive process research and development, since steelmaking technology is readily available for purchase.

Gerdau works continuously to monitor and anticipate the needs of its customers. For this, has research and development centers in Brazil, the United States and Spain used to meet the market demands for special steel, especially for the automotive industry. The Company invested in Technological Innovation projects and research and development the amount of R$ 239.7 million in 2012, R$ 268.7 million in 2013 and R$ 95,3 million in 2014.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business.

D. TREND INFORMATION

The outlook for the world steel industry continues to call for weak consumption growth and overcapacity. In the countries in which we operate, it is the developed markets that present a positive outlook.

The U.S. economy should continue to improve in 2015, driving steel consumption in the country. The non-residential construction sector should continue to grow, given the expansion in private investment in the United States. Investments in infrastructure, however, will be more moderate, in line with weak growth in the availability of public-sector financing. Nevertheless, continued growth in steel imports should continue to pressure the margins and results of companies in the industry.

Brazil s outlook for 2015 remains challenging, considering the potential impact of negative economic growth on consumption levels. The situation is further aggravated by the country s systemic issues, such as a high tax burden, cumulative taxation, electricity costs and weak local currency - factors that have been affecting key production segments.

Moreover, Latin America s other economies are expected to grow at varying rates in 2015, influencing apparent steel consumption in the region.

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In relation to the special steel segment in particular, outlook calls for weak growth in Brazil s automotive industry, with a direct impact on special steel demand. On the other hand, North America should continue to grow its auto industry by expanding the production of light and heavy vehicles, driving demand for special steels in the region. However, falling oil prices are already impacting the oil and gas industry, another major consumer of special steels. In the European market, the slow and gradual economic recovery should support an increase in light and heavy vehicle production in 2015. In India, estimates point to an increase in the production of light and heavy vehicles, consequently expanding the consumption of special steels in the country.

In the iron ore market, the global oversupply seen in 2014 impacted sales of this raw material and should continue to do so into 2015. Considering this scenario, Gerdau should follow its strategy of focusing its iron ore production on meeting demand from the Ouro Branco mill (Minas Gerais), thereby boosting its competitiveness.

We are also working with the expectation of continued margin pressure on export markets and the possibility of higher steel imports in virtually all markets in which we operate, which is a point for the industry to monitor. Furthermore, geopolitical conflicts are curbing economic growth in certain regions of the globe and consequently impacting steel consumption and sales. In light of this scenario, Gerdau will continue to adjust its operations to developments in the world steel industry, while continuing to work to capture operating efficiency gains and ensure the sustainability of its business.

E. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than the ones described below.

The Company is a guarantor of joint venture Gerdau Metaldom Corp. in an agreement with BNP Paribas to finance constructions and auxiliary equipment in an amount up to US$ 34,935 thousand (R$ 46,397 as of December 31, 2014).

The Company is the guarantor of the associate company Dona Francisca S.A. for financing contracts totaling R$ 2,628, corresponding to a joint liability of 51.82% of the amount.

The Company provides a guarantee for the line of credit of its joint venture Gerdau Corsa SAPI de C.V., with HSBC bank, in the amount of US$ 240 million (R$ 543,967 as of December 31, 2014).

The Company provides a guarantee for the line of credit of its joint venture Gerdau Corsa SAPI de C.V., with BBVA bank, in the amount of US$ 120 million (R$ 280,455 as of December 31, 2014).

The Company provides a guarantee for the line of credit of its joint venture Gerdau Corsa SAPI de C.V., with Scotiabank, in the amount of US$ 110 million (R$ 258,076 as of December 31, 2014).

The Company provides a guarantee for the line of credit of its joint venture Gerdau Corsa SAPI de C.V., with Sumitomo, in the amount of US$ 75 million (R$ 178,804 as of December 31, 2014).

The Company is the guarantor of the joint-venture Gerdau Metaldom Corp., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US$ 50,856 thousand (R$ 135,085 as of December 31, 2014).

The Company is the guarantor of the associate Aceros Corsa S.A. de C.V., co-borrower of a global credit line to finance working capital in the amount of US$ 20 million (R$ 46,459 as of December 31, 2014).

The Company is the guarantor of the associate Steelchem Trading Corporation, co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US$ 40 million (R$ 106,248 as of December 31, 2014).

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F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The next table sets forth the Company s contractual obligations on December 31, 2014.

Contractual obligations			**Payments due by period**		
(R$ thousands)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Short-term debt obligations (1)	2,037,869	2,037,869			
Long-term debt obligations (1)	17,148,580		4,044,665	1,425,923	11,677,992
Debentures (1)	335,036	27,584			335,036
Interest payments	7,262,079	937,334	1,722,328	1,199,741	3,402,676
Interest rate swap	8,999			8,999	
Operating lease obligations (2)	343,834	64,203	94,704	65,725	119,202
Capital expenditures (3)	2,076,578	1,800,145	276,433		
Unconditional purchase obligations (4)	255,372	255,372			
Pension funding obligations (5)	59,143	45,628	3,412	3,201	6,902
Total	**29,527,490**	**5,140,551**	**6,141,542**	**2,703,589**	**15,541,808**

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(1) Total amounts are included in the December 31, 2014 consolidated balance sheet. See Note 13 - Loans and Financing and Note 14 - Debentures in the consolidated financial statements.

(2) Includes minimum lease payment obligations for equipment and real property leases in effect as of December 31, 2014.

(3) Purchase obligations for capital expenditures are related to capital projects. The full amount relates to capital project agreements where Gerdau has irrevocably committed with suppliers to acquire equipment. As the equipment had not been received by December 31, 2014, the corresponding liability has not yet been recorded in its financial statements.

(4) The majority of other purchase obligations are for inventory and operating supplies and expenses used in the ordinary course of business.

(5) Pension funding obligations are included as per actuarial computations made by third party actuaries.

G. SAFE HARBOR

See the disclaimer with respect to Forward-Looking Statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Directors, Senior Management and Employees of the Company at December 31, 2014 and as of the date hereof are as follows:

JORGE GERDAU JOHANNPETER (born in 1936)

Education: Holds a degree in Law from the Federal University of Rio Grande do Sul - 1961.

Functions in Gerdau: Worked for Gerdau since 1954. Jorge Johannpeter became an Executive Officer in 1971 and a member of the Board of Directors in 1973. In 2002, after the implementation of the new corporate governance structure, he also became the President of the Gerdau Executive Committee (CEO). Since 1983 he has been the Chairman of the Board of Directors of Gerdau S.A as well as of the parent company Metalúrgica Gerdau S.A and Seiva S.A. On January 2, 2007, Jorge Gerdau Johannpeter retired from the Gerdau Executive Committee and since then he has been serving exclusively as a member of the Board of Directors, as its President. Principal business activities outside Gerdau: In addition, he is: (i) a member of the Board of Directors of the Instituto Aço Brasil (Brazilian Steel Institute) and of the Board of Fiesp (Federação das Indústrias de São Paulo). Jorge Johannpeter has also actively participated of non-profitable organizations, chairman of Programa Gaúcho da Qualidade e Produtividade PGQP (Quality and Productivity Program of the State of Rio Grande do Sul), founder of Movimento Brasil Competitivo MBC (Competitive Brazil Movement). He is member of Academia Brasileira de Qualidade ABQ (Brasilian Quality Academy); President of the Governance Committee of the Movimento Todos pela Educação (All for Education) and member Fundação Iberê Camargo; Vice-President of the board of Fundação Bienal Mercosul and member of the board of Parceiros Voluntários (Volunteer Partners).

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GERMANO HUGO GERDAU JOHANNPETER (born in 1932)

Education: Holds a degree in Business Administration from the Getúlio Vargas Foundation.

Functions in Gerdau: Has worked for Gerdau since 1951. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. Currently, he has been serving exclusively to the Board of Directors. He is also a Vice Chairman of the Board of Directors of the parent company Metalúrgica Gerdau S.A and a member of the Board of Directors of the subsidiary Seiva S.A. Florestas e Indústrias.

KLAUS GERDAU JOHANNPETER (born in 1935)

Education: Holds a degree in Civil, Electrical and Mechanical Engineering from the Federal University of Rio Grande do Sul.

Functions in Gerdau: Has worked for Gerdau since 1954. He became and Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. Currently, he has been serving exclusively to the Board of Directors. He is also the Vice Chairman of the Board of Directors of the parent company Metalúrgica Gerdau S.A. and a member of the Board of Directors of the subsidiary Seiva S.A. Florestas e Indústrias. In addition, he is the chairman of Instituto Gerdau (Gerdau Institute) entity which administrates Gerdau s social projects.

FREDERICO CARLOS GERDAU JOHANNPETER (born in 1942)

Education: Holds a degree in Business Administration from the Federal University of Rio Grande do Sul and a master s degree in Business, Finance, Costs and Investments from the University of Cologne, Germany.

Functions in Gerdau: Has worked for Gerdau since 1961. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. Under the new Corporate Governance structure, he also became Senior Vice President of the Gerdau Executive Committee until December, 2006. From January 2, 2007, he has served exclusively as a Vice Chairman of the Board of Directors. He is also the Vice Chairman of the Board of Directors of the parent company Metalúrgica Gerdau S.A. and a member of the Board of Directors of the subsidiary Seiva S.A. Florestas e Indústrias.

AFFONSO CELSO PASTORE (born in 1939)

Education: holds a degree in Economics from the University of São Paulo and a PhD in Economics from the same university.

Functions in Gerdau: has been an Independent Board Member of Gerdau since 2002. He is also a member of the board of directors of the controller company Metalúrgica Gerdau S.A.

Principal business activities outside Gerdau: In addition he has been a member of the board of directors of Even Construtora e Incorporadora S.A. from February 2010 to April 2013 and a member of the board of directors of M. Dias Branco S.A Indústria e Comércio de Alimentos since July, 2010. He was the Secretary of the São Paulo Treasury Department and President of the Brazilian Central Bank. He is the founder partner of A C Pastore Associados SS Ltda. a consulting company specialized in economic analysis of the Brazilian and international economy. Moreover, in the past 5 years he served as economist, analyst and economics advisor, writing articles, reports and studies on subjects related to economics. He has participated in local and international seminars and has given lectures on topics related to the Brazilian and world economies.

OSCAR DE PAULA BERNARDES NETO (born in 1946)

Education: holds a degree in Chemical Engineering and Business Administration from the Federal University of Rio de Janeiro (UFRJ).

Functions in Gerdau: has been elected as an Independent Board Member since 2002 and he is also a member of the Board of Directors of the controller company Metalúrgica Gerdau S.A.

Principal business activities outside Gerdau: In addition, he holds the following positions in other companies: (i) Member of the Audit Committee of Companhia Suzano de Papel e Celulose; (ii) Vice Chairman of the Board and Member of the Strategy and Human Resources Committees of Marcopolo S.A.; (iii) Member of the Audit and Risk Management Committees of Localiza Rent a Car S.A; (iv) Member of the Board of Directors and Coordinator of the Human Resources Committee of DASA Medicina Diagnóstica da América Latina; (v) Member of the Finance and Governance Committees of Praxair Inc. (USA); (vi) Senior consultant to the CEO of Johnson Electric (Hong Kong); and (vi) Consultant to the Executive Board of Davos Participações Ltda. He is also a member of the Board of Alcoa Brasil; of Amyris Brasil S.A.; and of Vanguarda S.A

ALFREDO HUALLEM (born in 1946)*

Education: graduated in Metallurgical Engineering from the UFF Universidade Federal Fluminense, Economic Engineering from the Pontifical Catholic University of Rio de Janeiro, and Strategic Marketing from Stanford;

Functions in Gerdau: has worked for Gerdau since 1974, He was promoted to Executive Officer in 1993 and since December 2007, he became a member of the Gerdau Executive Committee responsible for the Business Operation Long Steel Brazil. Since July 2009, keeping his position as an Executive Committee member, Alfredo was assigned responsible for Gerdau Commercial Process.

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ANDRÉ BIER GERDAU JOHANNPETER (born in 1963)

Education: He graduated in Business Administration from the Pontifícia Universidade Federal do Rio Grande do Sul (PUC RS). He studied General Business Administration at the University of Toronto (Canada), Marketing at the Ashridge Business School (UK), and Advanced Management at the Wharton School, University of Pennsylvania (United States).

Functions in Gerdau: has worked for Gerdau since 1980. He has been the President of the Company, in the position of Chief Executive Officer (CEO) and president of the Gerdau Executive Committee since January, 2007. At the beginning of 2008 he became a member of the Board of Directors. He is also a member of the Strategy Committee of the Board of Directors. In addition, he is a member of the Board of Directors, President Officer and president of the Executive Committee of the parent company Metalúrgica Gerdau S.A. and President Officer of the subsidiary Seiva S.A Florestas e Indústrias.

Principal business activities outside Gerdau: Furthermore, he is: (i) member of the Board of Management of Instituto Aço Brasil (Brazilian Steel Institute); (ii) Director of the executive committee of Associação Latino-Americana de Aço - Alacero (Latinamerican Steel Association); (iii) and Vice-President of Wordsteel Association;.

CLAUDIO JOHANNPETER (born in 1963)

Education: graduated in Metallurgical Engineering from the Federal University of Rio Grande do Sul (UFRGS) and studied Operations Management at the University of London, Executive Development at Penn State (United States), and in the Advanced Management Program at Harvard (United States).

Functions in Gerdau: Joined the Company in 1982. In 2007 was elected as Chief Operating Officer (COO) and member of the Gerdau Executive Committee until 2012. Currently he is a member of the Board of Directors (and member of Strategy Committee). He is also a member of the Board of Directors, of the parent company Metalúrgica Gerdau S.A. As from August 2, 2013, he returned to the Gerdau Executive Committee (CEG) as Executive Vice Chairman, coordinating the Committee s Long Steel Business in North America and the Global Engineering and Industrial Processes, and to the Risk Committee of Gerdau S.A.

GUILHERME CHAGAS GERDAU JOHANNPETER (born in 1971)

Education: Graduated in Law from the Unisinos, in 1995 and a Master s Degree in Business Administration from Marketing and Finance from Kellogg School of Management, Illinois, United States.

Professional Experience: He started his career in Gerdau in October, 1985, as Administrative Assistant, and was promoted to Scrap Purchaser at Gerdau Riograndense in 1992 and then to Legal Assistant in Porto Alegre in 1994. In 1996 was promoted to Head of Sales of the São Paulo Subsidiary of Commercial Gerdau. . In 2000, after he concluded his MBA and returned to Brazil, Guilherme was promoted to the position of Marketing and Planning Manager of Commercial Gerdau based in São Paulo. In 2000, after he concluded his MBA and returned to Brazil, Guilherme was promoted to the position of Marketing and Planning Manager of Commercial Gerdau based in São Paulo. In 2002, he was promoted to the position of Executive Manager of the Industrial Wire Business Area (GPM); in 2003 he was promoted to the position of Executive Director of the Gerdau Industrial Products Business area (GI) and to the position of Executive Director of the Civil Construction Business Area and Rebar Fabrication (GC) in 2005. In 2006 Guilherme was appointed to the position of Marketing Director for Gerdau Long Steel North America (GLN), then called Gerdau Ameristeel and he relocated to Tampa, United States. In 2007 he was promoted to Vice President for the Manitoba and Bright Bar facilities of the same Business Division. By this time, he also joined Gerdau Ameristeel s Executive Committee. In 2009 Guilherme was appointed to Vice President for Special Bar Quality and Wire Rod Operations at Gerdau Ameristeel which included the locations of Manitoba, St. Paul, Beaumont, Perth Amboy and Joliet and Duluth Grinding Balls. In 2010 Guilherme was promoted to Executive Vice President of Gerdau Special Steel North America and in 2011 he was promoted to the position of Long Steel North America Business Division Leader, position hold until April, 4th, 2014 when he became member of the Gerdau Executive Committee, as Executive Vice President. In this position, he is responsible for the Special Steel Business Division and the actions resulted from the Gerdau 2022 Project Strategy, based in Porto Alegre

EXPEDITO LUZ (born in 1951)

Education: Graduated in Law from the Federal University of Rio Grande do Sul in 1975 and obtained a master s degree in Law from the Columbia Law School in New York in 1980.

Functions in Gerdau: Has worked for Gerdau since 1976 and since 1989 is an Executive Officer of the Legal Department and became Executive Vice President, responsible for Legal and Compliance in 2009, becoming member of the Gerdau Executive Committee .Since 2001he has served as General - Secretary of the Board of Directors.

MANOEL VITOR DE MENDONÇA FILHO (born in 1957)

Education: graduated in Metallurgical Engineering from Federal University of Minas Gerais in 1982, holds an MBA from the Getúlio Vargas Foundation and MBA from Fundação Don Cabral and INSEAD - European Institute of Business Administration - in 2001.

Functions in Gerdau: has worked for Gerdau since 1983. He holds the position of Executive Vice President (since 2001) and he has been a member of the Gerdau Executive Committee since 2007. He is also Executive Vice President and member of Executive Committee of the parent company Metalúrgica Gerdau S.A.

Participates of the Conselho de Sustentabilidade e Responsabilidade Social (Sustainability and Social Responsability Board), member of Conselho Estratégico da Federação das Indústrias do Estado de Minas Gerais FIEMG (Strategic Board of the

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Association of the Estate of Minas Gerais Industries) and support the Board of Management of Instituto Aço Brasil (Brazilian Steel Institute) and also is part of the Conselho Diretor do Instituto Brasileiro de Mineração IBRAM.

FRANCISCO DEPPERMANN FORTES (born in 1963)

Education: Undergraduate Degree in Metallurgical Engineering from Universidade Federal do Rio Grande do Sul (Federal University of Rio Grande do Sul), in 1985 and a Master s Degree in Business Administration from the same University in 2001. In 2008 he completed the Gerdau Business Program and in 2010 he attended the Stanford Executive Program at Stanford University in the United States

Professional Experience: He started his career in 1984 as an Intern in the Engineering area at Gerdau being, subsequently, hired as Technical Advisor in this same area. In 1992, he took the responsibility for coordinating the area of Management Systems of Aços Especiais Piratini. In 2000, he accumulated the responsibility for the Human Resources unit. In 2001 he served as Manager of the Management System area of Integrated Regional Units of Long Steel Brasil. In 2003 he was transferred to the City of Porto Alegre where he started coordinating the global implementation and structuring of Gerdau Business System and Total Safety System, where he was promoted to Director of Management Systems in 2004. In January, 2006, he was promoted to the position of Executive Director of Gerdau Riograndense and Guaíra and in 2007 he was promoted to the position of Corporate Director of Human Resources, the position in which he added, over time, the processes of Organizational Development and Management Systems. Nowadays he holds the position of Executive Vice-President of Human Resources, Management and Organizational Development, Technology Management, Environment, Health and Safety and Information Technology, as well as, member of Executive Committee of Gerdau S.A. and its parent company Metalúrgica Gerdau S.A.

RICARDO GIUZEPPE MASCHERONI (born in 1961)

Education: He graduated in Economics at Catholic University of Petrópolis - UCP - RJ, in 1982, with a degree in Marketing from PUC RJ in 1983. Concluded the Gerdau Business Program in 2008.

Functions in Gerdau: He started his career in Gerdau Cosigua in September 1983. In March 2005 was promoted to the position of Executive Manager of the Business Area of Gerdau Steel for Industry. In November 2006 he became the Commercial Director of Special Steels Piratini. In 2007 Mascheroni was promoted to Commercial Director of Long Steel Brazil Business Division, and in 2009 he assumed his current position as the Executive Director of the same Business Division, Long Steel Brazil. Since 2011 he holds the position Executive Vice President and member of Executive Committee Gerdau SA and of its parent company Metalúrgica Gerdau S.A.

ANDRÉ PIRES DE OLIVEIRA DIAS (born in 1967)

Education: holds a degree in Business Administration with specialization in finance from Fundação Getúlio Vargas (Getúlio Vargas Foundation) in the City of São Paulo.

Function in Gerdau: joined Gerdau in 2004 as investment officer of the corporate office in Porto Alegre. In 2010, became the chief financial officer of Gerdau Aços Longos North America and in this position he was responsible for financial planning and analysis, accounting, treasury, risk management, expense management and shared services. As of 2013, André Pires becomes Executive Vice President of the Executive Committee of Gerdau S.A., appointed Investor Relations Officer and responsible for the areas of finance and controllership of Gerdau S.A. and Metalúrgica Gerdau S.A., the holding company of Gerdau. He also became officer of Seiva S.A.

Principal business activities outside Gerdau: André Pires has over 25 years experience in the international market. He started his career in 1988 as a research analyst at Banco Geral do Comercio in Brazil. Five years later, he moved to the United States, where he served as resource manager at Montgomery Asset Management in San Francisco, California. In 1994, he returned to Brazil as CEO of the Brokerage House of Banco Geral do Comércio and later worked at Banco BBA Creditanstalt. His next position was prospecting business in Brazil for BNP Paribas, France s largest financial institution, where he served as division director of resource management. He is today a member of Administrative Board of Abrasca Association of Publicly held Companies.

- *Mr. Huallem retired on January 1, 2015 and no longer serves the Company in any capacity.

Find below the summary of the structures of the Board of Directors and of the Statutory Board of Executive Officers:

Board of Directors

Chairman:

Jorge Gerdau Johannpeter

Vice Chairmen:

Germano Hugo Gerdau Johannpeter

Klaus Gerdau Johannpeter

Frederico Carlos Gerdau Johannpeter

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Board members:

André Bier Gerdau Johannpeter

Claudio Johannpeter

Affonso Celso Pastore

Oscar de Paula Bernardes Neto

Statutory Board of Executive Officers

Chief Executive Officer (CEO):

André Bier Gerdau Johannpeter

Vice-Presidents:

Claudio Johannpeter

Guilherme Chagas Gerdau Johannpeter

Manoel Vitor de Mendonça Filho

Francisco Deppermann Fortes

Ricardo Giuzeppe Mascheroni

Vice-President, Legal and Compliance Officer:

Expedito Luz

Vice-President, Chief Financial officer (CFO) and Investor Relations Officer:

André Pires de Oliveira Dias

Family Relationships

Jorge Gerdau Johannpeter, Germano Hugo Gerdau Johannpeter, Klaus Gerdau Johannpeter and Frederico Carlos Gerdau Johannpeter are brothers. André Bier Johannpeter is Jorge Gerdau Johannpeter s son, Claudio Johannpeter is Klaus Gerdau Johannpeter s son and Guilherme Chagas Gerdau Johannpeter is son of Frederico Carlos Gerdau Johannpeter.

Arrangements

Gerdau has no agreement of any kind with shareholders, clients, suppliers or other parties with respect to the election of its officers or directors. There are no pending legal proceedings to which any Company Board Member or Executive Officer is a party against the Company. Apart from statutory severance benefits, none of the Board Members or Executive Officers is entitled to any contractual benefits upon termination of employment.

B. COMPENSATION

The employees compensation system is divided into two portions: a fixed salary and a variable pay linked to performance.

The fixed portion of the compensation is constantly monitored and compared to market benchmarks in order to maintain parity with the best market practices as adopted by other companies. The variable portion of the compensation package is tied to semi-annual and annual goals. These goals are measured against standards clearly specified that are intended to support and motivate overachievement of individuals and/ or teams results.

The human resources policy states and recognizes co-workers as being strategic to the business.

The Company conducts evaluations based on several different methodologies, including competence mapping, to track the managerial skills of its executives. Competence mapping aims to identify the degree of alignment of executives with the Company s strategies and business management and to monitor individual development.

In 2014, Directors and Executive officers from Gerdau were paid a total of R$ 46.6 million in salaries and variable remuneration. The variable remuneration for executives is based on the overall performance of Gerdau, using as performance indicator, actual EBITDA versus planned EBITDA and on individual performance. The first factor influences 60% and the second 40% in the amount of the variable remuneration for more or less.

Gerdau Group sponsors Pension Plans for its subsidiaries in Brazil and abroad. About 18% of participants are in the Defined Benefit plans and 82% in a Defined Contribution plan.

During 2014, Gerdau s contribution to the Gerdau Plan with respect to the executive officers amounted to R$ 1.3 million to the Defined Contribution Plan. This sum includes only that portion of contributions for executives who do not currently receive retirement benefits. These benefits are in no way different from those offered to the other employees of the Company.

On April 30th, 2003, Gerdau s shareholders approved a new compensation program for strategic employees in the Company known as the Long Term Incentive Program. This program foresees the grant of options of the Company s Preferred Shares, on an annual basis, representing 20% of the annual base salary of each executive and, for the Directors and Executive Offices, an additional entrance bonus equivalent to 30% of the annual salary which latter was eliminated as of April 28, 2005. From 2005 on, in order to align their potential total compensation to market measures, the Board members were granted a number of shares representing 120% of their base salary. This modification of the long term incentive program was approved by the Compensation and Succession Committee in February 2006. In 2007, the Compensation and Succession Committee approved a change in the grant to the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) to the equivalent of 50% of their annual base salaries. In order to align the potential total compensation to market measures, the Compensation and Succession Committee approved respectively in 2012 and on 2013, to the Chief Executive Officer (CEO) and to the Chief Operating Officer (COO) a change to the grant to 75% and then to 120% of their annual base salaries and to the Vice-Presidents to 30% and then to 40%.

The intent of such Program to attract and assure the long-term commitment of executives by allowing them to share in the growth of the Company, thereby enhancing the sense of participation in the business remain s. (See Item 10. Additional Information B. Memorandum and Articles of Association).

To meet the effort of aligning globally both the compensation programs and the business needs, the Human Resources team supported by the HAY Group Consultancy, expert in compensation related matters, reviewed the Long Term Compensation Program in order to tie significant part of this compensation to a long term financial metric, in this case the ROCE (Return on Capital Employed), which was submitted to and approved by the Gerdau Compensation and Succession Committee during the meeting held on April 28, 2010.

The Chief Executive Officer (CEO), the Board Members and Director positions and higher will have part of their Long Term Compensation tied to ROCE (Return on Capital Employed) calculated on a yearly basis by comparing the actual ROCE against the one foreseen in the Strategic Plan.

In a shareholders meeting, held in September, 19th, 2013, changes to the Program were approved to better support the fulfillment of long term goals. These changes consisted of the inclusion of new vehicles such as Restricted Shares, Performance Shares, Differed Shares and also allowed participants to convert voluntarily up to November 17th 2013, their Stock Options or Share Appreciation Rights to Restricted Shares, through a calculation methodology that assured that there would be equivalent fair value among them.

The fair value calculation was determined by a specialized external consultancy and the trinomial evaluation method was used. The Restricted Shares resulting from the conversion will be exercised in five equal instalments on the following schedule: December 9th,2013, March 20th, 2015, March 20th, 2016, March 20th, 2017 and March 20th, 2018.

The Compensation and Succession Committee approved all stock option grants since the program has begun.

Share figures have been retroactively adjusted for all periods to reflect the bonus issue of one share for each share held in April 2004, the bonus issue of one share for every two shares held in April 2005, the bonus issue of one share for every two shares held in April 2006 and the bonus issue of one share for each share held in June 2008.

The stock option grants distributed to the Directors and Executive Officers are as follows (see Consolidated Financial Statements Note 24 for a complete summary of the stock option plans):

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Exercise Price:	R$ 6.78	R$ 10.58	R$ 10.58	R$ 12.86	R$ 17.50	R$ 26.19	R$ 14.91	R$ 29.12	R$ 22.61	R$ 14.42	R$ 18.58
Grant Date:	30-dez-03	30-dez-04	30-dez-04	30-dez-05	30-dez-06	30-dez-07	30-dez-08	30-dez-09	30-dez-10	30-dez-11	30-dez-12
Vesting Date:	2-jan-09	2-jan-10	2-jan-08	2-jan-11	2-jan-12	2-jan-13	2-jan-14	2-jan-15	2-jan-16	2-jan-17	2-jan-18
Expiration Date:	30-dez-13	30-dez-14	30-dez-14	30-dez-15	30-dez-16	30-dez-17	30-dez-18	30-dez-19	30-dez-20	30-dez-21	30-dez-22
Total Options Granted to Directors and Executive Officers	635,121	554,528	284,222	1,122,308	842,545	665,262	1,225,961	990,420	646,397	920,166	887,162
Exercised Options	635,121	524,473	284,222	56,286	6,981	0	16,494	3,100	6,252	8,423	2,367
Cancelled Options	0	0	0	0	0	0	0	630	99,334	5,620	418,790
Balance Options	0	0	0	0	0	0	0	327,746	309,931	526,230	496,889
Options converted to Restricted Share	0	30,055	0	1,066,022	835,564	665,262	1,209,467	665,773	242,942	409,910	396,124

Grant Price:	R$ 16.58	R$ 18.36	R$ 9.65
Grant Date:	1-set-13	30-dez-13	30-dez-14
Vesting Date:	31-mar-14	31-mar-15	31-mar-16
Expiration Date:	31-mar-18	31-mar-19	31-mar-20
Total Restricted Share (Conversion)	2,853,827		
Exercised Restricted Share (Conversion)	599,856		
Cancelled Restricted Share (Conversion)	0		
Balance Restricte Share (Conversion)	2,253,971		
Grant Restricted Share		223,414	406,696
Exercised Restricted Share		0	0
Cancelled Restricted Share		0	0
Balance Restricte Share		223,414	406,696
Grant Performance Share		818,689	1,549,361
Exercised Performance Share		2,716	0
Cancelled Performance Share		13,623	0
Balance Performance Share		802,351	1,549,361

The grants December 2014 are subject to approval by the Compensation and Succession Committee in March 2015.

** Guilherme Johannpeter until April 2014 occupied the position of Executive Director of North America, and since May 2014 he was elected Vice President and joined the Executive Committee of Gerdau.

* Alfredo Huallem played the role of Board member and the Strategy Committee until January 1, 2015 due to retirement.

C. BOARD PRACTICES

Gerdau has a historical commitment to good corporate governance practices and to strengthening the stock markets, which is why it takes part in Level 1 of the São Paulo Stock Exchange (Bovespa) Differentiated Corporate Governance program (since 2001 in the case of Gerdau S.A. and 2003 for Metalúrgica Gerdau S.A.).

Furthermore, the Gerdau S.A and Metalúrgica Gerdau S.A also have an information disclosure policy that defines the criteria guiding investor relations, including the announcement of relevant acts and facts. The aim is to maintain a fast and efficient flow of data while respecting the rules of secrecy and confidentiality. This policy covers controlling shareholders, officers and managers, members of the Board of Directors and Board of Auditors and any organs or persons with technical or consultative functions which, as a result of their responsibilities, function or position, have access to information concerning the Gerdau Companies.

The structure is composed of three levels and has maintained the existing governing bodies: the Board of Directors, the Executive Committee (together with the Board of Officers) and Business Operations Committee.

Board of Directors: The Board of Directors is responsible for determining the broad direction of the Gerdau s business. The Board may have up to eleven members; currently there are two independent Board members. The Board has four Committees: Corporate Governance; Strategy; Compensation and Succession; and Risks. According to the Ordinary General Meeting of Shareholders, held on April 25, 2014, the members of the Board of Directors, whose terms of office expire on April 30, 2015, are:

Chairman

Jorge Gerdau Johannpeter (1), (2)

Vice Chairmen

Germano Hugo Gerdau Johannpeter (2)

Klaus Gerdau Johannpeter (2)

Frederico Carlos Gerdau Johannpeter (1), (2), (3)

Member

André Bier Gerdau Johannpeter (2), (4)

Claudio Johannpeter (2), (4)

Alfredo Huallem (*)

Independent Members

Affonso Celso Pastore (3)

Oscar de Paula Bernardes Neto (1), (3)

Secretary-General

Expedito Luz (4)

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(1) Member of the Corporate Governance Committee

(2) Member of the Strategy Committee

(3) Member of the Compensation and Succession Committee

(4) Member of the Risk Committee

* Retired on January 1, 2015.

The Committees created to support the Board of Directors are:

Strategy Committee: responsible for supporting the Board in the formulation of general policy guidelines of the Company; providing recommendations to the Board regarding policies and guidelines of business by product line and market; providing opinion on the investment program presented annually and recommend its approval; opining on proposed mergers and acquisitions, monitoring the political environment, economic and social from the perspective of the Group s business, as well as trends in the steel industry and evaluating the impacts of the development on the Company s business, among other activities.

Corporate Governance Committee: responsible for, among other functions, keeping the members updated about the trends and benchmarks of Corporate Governance; evaluating the recommendations of the agents of capital markets and financial and specialized agencies, to recommend to the Board principles and guidelines of Corporate Governance; reviewing and commenting on the information relating to Corporate Governance contained in the official documents of the Company for dissemination to the market and evaluating the performance of the Board as a whole.

Succession and Compensation Committee: its main functions are: recommend policies for selection, retention and succession of directors and strategic executives of the company; evaluate compensation plans, benefits and pensions of directors and strategic executives; review of general wage increases; general definition of global values of variable remuneration and grant of stock options; and the review and monitoring of the training programs for strategic managers and executives, suggesting alternatives to their professional development, review general HR strategies and its compensation policies; participate in the evaluation process of the members of the Executive Committee of the Company.

Risk Committee: its main duties are monitoring relevant topics, such as reviews of the status of the Sarbanes Oxley controls, adequacy of risk controls associated with each macro process and / or operation, including, but not limited to, environmental risks, enterprise security, information security, the work of internal audit on operational risks, statistics, as well as relevant Ethic and Compliance issues and legal contingencies, subject to the provisions of Policy on Risk Management published on the Company website.

The members of the Board of Executive Officers and the Gerdau Executive Committee are the same:

President, Chief Executive Officer

André Bier Gerdau Johannpeter

Vice Presidents

André Pires de Oliveira Dias

Claudio Johannpeter

Guilherme Chagas Gerdau Johannpeter

Expedito Luz

Francisco Deppermann Fortes

Manoel Vitor de Mendonça Filho

Ricardo Giuzeppe Mascheroni

Board of Executive Officers: Statutory Board whose members are responsible for the representation of the company and performance of the acts needed for the company s standard operations.

Gerdau Executive Committee: The Gerdau Executive Committee is responsible for coordinating the activities of the executive officers and managing the Company s business, the purpose being to build on the Company s relationship with the market and ensure best corporate governance practices. This structure provides an administrative link between the Board of Directors and the Company s business operations. Its activities are divided into business operations (BOs), defined by product line and/or geographical location: BO - Brazil, BO - Special Steel Products, BO - North America, BO - Latin America and BO Iron Ore. The Gerdau Executive Committee is also responsible for the main functional processes that operate vertically throughout the Gerdau Companies, such as finance, accounting, human resources and planning. Committee s members work together to encourage a greater synergy among operations, and individually with a focus on the management of each business and functional process in order to maximize results.

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Other Committees created to Support the Management: In order to provide support to the Executive Committee several committees were created and are responsible for advising on specific matters. Among the Executive Committee s support committees which should be mentioned are the Finance Committee and the Human Resources Committee as the most important bodies.

Corporate Structure: Gerdau corporate structure evolved to help the business by adding value in three ways: being guardian of the governance and brand, image and values; optimizing the efficiency of the Gerdau s activities through economies of scale and leveraging capabilities to deliver value above what individual businesses could generate autonomously. The Governance Guardian areas , such as Finance and Planning; Accounting; Com., Public Affairs, Gerdau Institute; Legal, Compliance, Corp. Security; Internal Audit and Environment, Health and Safety, protects shareholders interest and manage relevant risks to long-term sustainability. The Scale Economizer areas, such as Information Technology; Procurement; Shared Services and GIT, optimize resources and achieve economies of scale. The Advantage Accelerators areas, such as Metallics; Marketing and Sales; Industrial, Engineering; People; Innovation and Management System, exploit Gerdau´s differentiating capabilities in the Business Divisions.

All members of the Board of Directors and the Gerdau Executive Committee are elected for one-year terms, with re-election or re-appointment permitted. Members of the Board of Directors are appointed at the Ordinary General Meeting of Shareholders while members of the Gerdau Executive Committee are elected at meetings of the Board of Directors. The Company announced on March 26, 2015 the new structure of its Board of Directors, which will be submitted to the General Meeting of the Board scheduled to be held on April 29, 2015 in accordance with the rules of the Brazilian Securities and Exchange Commission.

The proposal establishes one more step regarding the Gerdau Johannpeter family s succession process in the business governance and it includes the following changes:

- André B. Gerdau Johannpeter, Board Member and CEO of Gerdau and Claudio Gerdau Johannpeter, Board Member and executive vice president, will be also named Co-Chairmen of the Boards of Directors of Gerdau S.A. and Metalúrgica Gerdau S.A.

- Guilherme C. Gerdau Johannpeter, executive vice president, will also be named Board Member of Metalúrgica Gerdau S.A. and Richard C. Gerdau Johannpeter, executive director of the Family Office will also be named Board Member of Gerdau S.A. Expedito Luz, executive vice president, will be named Board Member of both Gerdau S.A. and Metalúrgica Gerdau S.A.

- The current Chairman of the Boards of Directors of both companies, Jorge Gerdau Johannpeter - and vice chairmen Germano, Klaus and Frederico Gerdau Johannpeter, are leaving the Board of Directors and will establish an Advisory Board. The new Advisory Board will be chaired by Jorge and its objective is to keep sharing management and strategy experience learned throughout the past decades.

Proposal for the new Board of Directors:

Gerdau S.A. Board of Directors

André B. Gerdau Johannpeter	Co-Chairman
Claudio Gerdau Johannpeter	Co-Chairman
Richard C. Gerdau Johannpeter	Board Member
Affonso Celso Pastore	Board Member
Expedito Luz	Board Member
Oscar de Paula Bernardes	Board Member

Board of Auditors

Under Brazilian Corporate Law, the board of auditors (Conselho Fiscal) is a shareholder nominated audit board and an independent corporate body of the board of directors, management and the company s external auditors. The board of auditors has not typically been equivalent to or comparable with a U.S. audit committee; its primary responsibility has been to monitor management s activities, review the financial statements, and report its findings to the shareholders. Pursuant to an exemption under Section 10A-3 of the SEC rules concerning the audit committees of listed companies, a foreign private issuer (such as the Company) doesn t need to have a separate audit committee composed of independent members if it has a Board of Auditors established and selected pursuant to its home country s legal or listing provisions expressly requiring or permitting such a board and if such a board meets certain requirements. Pursuant to this exemption, a board of auditors can exercise the required duties and responsibilities of an U.S. audit committee to the extent permissible under Brazilian Corporate Law. To comply with the SEC rules, the Board of Auditors must meet the following standards: it must be separate from the full board of directors, its members must not be elected by management, no executive officer may be a member, and Brazilian law must set forth standards for the independence of the members. In order to qualify for exemption, the Board of Auditors must, to the extent permitted by Brazilian law:

- be responsible for the appointment, retention, compensation and oversight of the external auditors (including the resolution of disagreements between management and the external auditors regarding financial reporting);

- be responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

- have the authority to engage independent counsel and other advisors as deemed necessary, to carry out its duties; and

- receive appropriate funding from the Company for payment of compensation to the external auditors, for any advisors and ordinary administrative expenses.

As a foreign private issuer, the Company decided to modify its Board of Auditors to comply with the exemption requirements. Accordingly, the Ordinary General Meeting of Shareholders held on April 28, 2005, amended the Company s by-laws to modify the duties of the Board of Auditors and the Board of Directors, and, on the same date approved the delegation of certain additional responsibilities to the Board of Auditors. The Board of Auditors operates pursuant to a charter (regimento interno) that contemplates the activities described above to the extent permitted by Brazilian Law and is compliant with the requirements of the Sarbanes-Oxley Act, the pertinent regulations, and the requirements of the New York Stock Exchange and the Board of Auditors.

Because Brazilian Corporate Law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external auditors and does not provide the board or the board of auditors with the authority to resolve disagreements between management and the external auditors regarding financial reporting, the board of auditors cannot fulfill these functions. Therefore, in addition to its oversight responsibilities, the board of auditors may only make recommendations to the board of directors with respect to the appointment, retention and compensation of the external auditors. Likewise, the board of auditors may only make recommendations to management and the board with regard to the resolution of disagreements between management

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and the external auditors. This limited scope of authority is a key difference between the board of auditors and the customary authority of an audit committee as a full committee of the board of directors.

Under Brazilian Corporate Law, members of the board of auditors of a company are not allowed to be members of the board of directors, hold executive office, or be employed in any other position within that of the company or its subsidiaries or controlled companies. In addition, a member of the board of auditors cannot be spouse or relative of any member of the company s management. The Brazilian Corporate Law requires that members of the board of auditors receive a remuneration at least 10% of the average amount paid to each executive officer; and, also, that a board of auditors be composed of a minimum of three and a maximum of five members and their respective alternates.

As part of the adaptation of its Board of Auditors to the regulations, the Company has installed a permanent (standing) Board of Auditors currently composed of three members and their alternates who are elected at the Ordinary General Meeting of Shareholders with term of office to run until the next Ordinary General Meeting of Shareholders following their election, reelection being permitted. Under Brazilian Corporate Law, holders of Preferred Shares have the right to elect through a separate vote, one member of the board of auditors to represent their interests. Likewise, minority groups of shareholders with voting shares also have the right to elect one member of the board of auditors through a separate vote. However, irrespective of circumstances, the common shareholders have the right to elect the majority of the members of the board of auditors. Set forth below are the names, ages and positions of the members of the Company s Board of Auditors and their respective alternates, since April 25, 2014.

Name	**Birthday**	**Member Position**	**Year First Elected**
Bolívar Charneski	08/22/1950	Effective	2011
Geraldo Toffanello	10/12/1950	Effective	2014
Roberto Lamb	06/06/1948	Effective	2007
Carlos Roberto Schröder	02/19/1940	Alternate	2014
Artur Cesar Brenner Peixoto	09/29/1942	Alternate	2014
Décio Lopes do Couto	03/03/1952	Alternate	2013

The Shareholder s Ordinary Meeting has determined that Bolívar Charneski is an audit committee financial expert within the meaning of the rules adopted by the SEC concerning disclosure of financial experts. Each member of the Board of Auditors has acquired significant financial experience and exposure to accounting and financial issues.

Mr. Charneski holds holds a bachelor s degree in accounting (1974) and participated in a professional exchange program in Atlanta, USA. He is the founder and has been partner of Charneski Assessoria e Consultoria since 1988, and since 2009 dedicates to advising companies and organizations in the fields of Governance, Boards and Management. Audit Board member (designated as Financial Expert for SOX purposes) of Gerdau S.A. since 2011; Audit Board member of Grendene S.A. since 2011; former Member of the Coordination Committee of the South Chapter of the Brazilian Corporate Governance Institute (IBGC); Audit Board member from 1998 to 2007 at Forjas Taurus S.A., Audit Board Member of Plascar Participações Industriais S.A. from April to September 2009, Director certified by IBGC; Acting Partner (1st elected in Brazil) of Price Waterhouse (1971-1988), where he was also one of the founders of the Accounting and Audit Commission; Director in various administrations of the Brazilian Institute of Independent Auditors (IBRACON), having presided over the 67th Regional Section and serving twice as Director of IBRACON nationally; Advisory Board Member of family-owned businesses.

Mr. Toffanello holds a degree in accounting from Faculdade Porto-Alegrense de Ciências Contábeis e Administrativas and a graduate degree in accounting UFRGS. He started his career at Gerdau in 1970, as tax bookkeeping assistant, promoted later to Head of the Tax Accounting Area. He also served as Head of Accounting and Bookkeeping in Sapucaia do Sul. In 1980, he was transferred to Gerdau Açonorte, as the Accountant

responsible for the companies in the Northeast Region, being promoted to Accounting Manager of the Regional office in 1981. In 1983, he returned to Gerdau in Porto Alegre/RS to work at the Accounting department and also at the holding company. In 1984, he was promoted to General Manager of Accounting and Internal Audit, serving in the corporate areas of these two processes. In 1988, he was promoted to Chief Accounting Officer and later served as Process Owner of Accounting, a position he held until retiring in 2012. In 2013, he became a member of the Audit Board of Dimed S.A., member of the Board of Directors of Puras FO and Founding Partner of Empresa Luzes do Mundo Ltda. He is also a member of the Audit Boards of Gerdau S.A. and Metalúrgica Gerdau S.A.

Mr. Lamb holds a degree in Physics from Universidade Federal do Rio Grande do Sul (1972), post-graduation in Monetary Economy from FRE/RS (1987) and a master in Administration (Finance) from Universidade Federal do Rio Grande do Sul (1993). Currently, Mr. Lamb holds the position of (i) Finance Administration Professor at Universidade Federal do Rio Grande do Sul (since 1998); (ii) member of the Board of Auditors of Gerdau S.A., as well as AES Tietê S/A (since April, 2012) and Marfrig S/A (since April, 2011); (iii) alternate member of the Board of Auditors of Petrobras S/A. He was member of the Board of Auditors of the following companies: Seara Alimentos Ltda., Marcopolo S/A, Gerdau S.A. (from 2007 to 2008), Rio Grande Energia S/A and AES Eletropaulo.

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D. EMPLOYEES

The following chart presents information on the geographical distribution of Gerdau s employees:

Direct	Brazil	Overseas	Total
2010	22.577	18.713	41.290
2011	23.516	19.304	42.820
2012	22.658	19.211	41.869
2013	22.278	19.337	41.615
2014	20.169	19.892	40.061

Outsourced*	Brazil	Overseas	Total
2010	7.676	3.565	11.241
2011	7.734	3.799	11.186
2012	8.147	3.303	11.450
2013	7.637	4.128	11.765
2014	6.583	4.201	10.784

** Outsourced corresponds to employees of third-party service providers of Gerdau which provide, as employees of those providers, services directly to Gerdau in areas that are not the core business of Gerdau.*

As of December 31, 2014, the Company employed 40,061 at its industrial units excluding joint ventures. 50% of this total is based in Brazil and the remainder in South America, North America,Europe and India, which have 5,722, 10,910, 2.296 and 964 employees, respectively.

As labor unions in Brazil and other Countries in Latin America and Europe are organized on a regional basis, the Company has no nationwide agreements with its employees. Gerdau believes that its employee pay and benefits structure is comparable to the general market. 32% of the employees of Gerdau in North America are unionized.

Gerdau maintains good working conditions at its mills and consequently has what it believes to be a comparatively low employee turnover rate.

Gerdau has been and continues to be proactive in establishing and maintaining a climate of good employee relations. Ongoing initiatives include organizational development skills training, team-building programs, opportunities for participation in employee involvement teams, and an open book system of management. Gerdau believes that a high level of employee involvement is a key factor in the success of its operations. Compensation programs are designed to meet employee s financial interests with those of Gerdau shareholders.

E. STOCK OWNERSHIP

The following table shows the individual holdings of shares in preferred and common stock in Gerdau S.A. for each director and executive officer as of January 31, 2015.

Shareholder	Common Shares (with voting rights)	%	Preferred Shares (with restricted voting rights)	%
Jorge Gerdau Johannpeter	100	0.00	517,081	0.05
Frederico C. Gerdau Johannpeter	100	0.00	1,790,777	0.15
Germano H. Gerdau Johannpeter	100	0.00	382,969	0.03
Klaus Gerdau Johannpeter	100	0.00	100	0.00
Affonso Celso Pastore		0.00	13,593	0.00
Oscar de Paula Bernardes Neto		0.00	85,817	0.01
Manoel Vitor de Mendonça Filho		0.00	81,235	0.01
André Bier Gerdau Johannpeter	23,885	0.01	321,311	0.03
Claudio Johannpeter	38,435	0.01	133,407	0.01
Guilherme Chagas Gerdau Johannpeter		0.00	86,374	0.01
André Pires de Oliveira Dias		0.00	2,554	0.00
Expedito Luz		0.00	14,418	0.00
Alfredo Huallem		0.00	5,623	0.00
Francisco Deppermann Fortes		0.00	35,813	0.00
Ricardo Giuzeppe Mascheroni		0.00	17,827	0.00
TOTAL	**62,720**	**0.02**	**3,488,899**	**0.30**

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The Company has different employee stock option plans for each of its subsidiaries. See NOTE 24 Long-Term Incentive Plans in its consolidated financial statements included herein for further details.

The following table shows the remaining vested options, the restricted shares resulted from the stock option conversion and 2014 awards (all Gerdau S.A. preferred shares) to each director and executive officer as of January 31, 2014. The 2014 award is still to be approved by the Compensations and Succession Committee in March, 2015.

	Stock Options				Restricted Share Units				Performance Share Units			
Names	**Grant**	**Exercised**	**Cancelled**	**Balance**	**Grant**	**Exercised**	**Cancelled**	**Balance**	**Grant**	**Exercised**	**Cancelled**	**Balance**
Jorge Gerdau Johannpeter	**320,386**	**0**	**0**	**320,386**	**634,776**	**126,955**	**0**	**507,821**	**463,999**	**0**	**0**	**463,999**
Germano H Gerdau Johannpeter	**191,881**	**0**	**0**	**191,881**	**544,672**	**108,934**	**0**	**435,738**	**226,314**	**0**	**0**	**226,314**
Klaus Gerdau Johannpeter	**191,881**	**0**	**0**	**191,881**	**544,672**	**108,934**	**0**	**435,738**	**226,314**	**0**	**0**	**226,314**
Frederico C Gerdau Johannpeter	**281,485**	**0**	**0**	**281,485**	**607,488**	**121,497**	**0**	**485,991**	**391,306**	**0**	**0**	**391,306**
Claudio Johannpeter	**185,976**	**0**	**35,526**	**150,450**	**284,749**	**24,235**	**0**	**260,514**	**245,359**	**0**	**0**	**245,359**
Alfredo Huallem*	**51,344**	**20,142**	**31,202**	**0**	**36,369**	**36,369**	**0**	**0**	**16,338**	**2,716**	**13,623**	**0**
Affonso Celso Pastore	**28,929**	**0**	**0**	**28,929**	**50,729**	**10,145**	**0**	**40,584**	**49,308**	**0**	**0**	**49,308**
Oscar de Paula Bernardes Neto	**28,929**	**0**	**0**	**28,929**	**36,755**	**7,351**	**0**	**29,404**	**49,308**	**0**	**0**	**49,308**
Andre Bier Johannpeter	**231,158**	**0**	**37,260**	**193,898**	**329,220**	**23,182**	**0**	**306,038**	**319,963**	**0**	**0**	**319,963**
Manoel Vitor de Mendonca Filho	**43,555**	**0**	**0**	**43,555**	**79,159**	**6,174**	**0**	**72,985**	**72,430**	**0**	**0**	**72,430**
Ricardo Giuzeppe Mascheroni	**39,365**	**0**	**0**	**39,365**	**67,467**	**4,816**	**0**	**62,651**	**65,075**	**0**	**0**	**65,075**
Expedito Luz	**41,319**	**0**	**0**	**41,319**	**64,110**	**5,322**	**0**	**58,788**	**56,247**	**0**	**0**	**56,247**
Francisco Deppermann Fortes	**33,027**	**0**	**0**	**33,027**	**58,745**	**4,622**	**0**	**54,123**	**53,453**	**0**	**0**	**53,453**
Andre Pires de Oliveira Dias	**19,236**	**0**	**0**	**19,236**	**50,372**	**3,525**	**0**	**46,847**	**49,114**	**0**	**0**	**49,114**
Guilherme Gerdau Johannpeter**	**0**	**0**	**0**	**0**	**131,139**	**20,513**	**586**	**110,040**	**156,796**	**0**	**0**	**156,796**
Total	**1,688,471**	**20,142**	**103,988**	**1,564,341**	**3,520,421**	**612,574**	**586**	**2,907,262**	**2,441,325**	**2,716**	**13,623**	**2,424,986**

* * Alfredo Huallem played the role of Council member and the Strategy Committee until January 1, 2015 due to retirement.

** Guilherme Johannpeter until April 2014 he served as Executive Director of North America, and since May 2014 he was elected Vice President and joined the Excutivo Committee of Gerdau.

The grants December 2014 are subject to approval by the Compensation and Succession Committee in March 2015.

The information of exercise price, grant date, vesting date and expiration date are available in the stock option table in the item 6.B Compensation.

The Extraordinary Shareholders Meeting held on September 19, 2013 approved the amendment to the Preferred Stock Option Plan, with the options already granted that had not been yet exercised under the scope of the Long-Term Incentive Program converted to Restricted Shares, whose restriction in this case is the vesting period. Said conversion was based on the fair value of the option calculated by an independent consulting firm. Bloomberg was contracted to perform the equivalence calculation.

The Restricted Stocks and Performance Shares granted in December 2014 are a projection, which will be approved by the Compensation and Succession Committee Meeting to be held in March.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

As of January 31, 2015, Gerdau S.A. had 571,929,945 common shares and 1,122,157,287 non-voting preferred shares outstanding (excluding treasury stock). Of the two classes of stock traded in the market, only the common stock carries voting rights. Under the terms of the Company s bylaws, however, specific rights are assured to the non-voting preferred stock. See the bylaws of Gerdau S.A. attached to this Annual Report.

The table below presents certain information as of January 31, 2015, regarding (i) any person known to the Company as the owner of more than 5% of Gerdau S.A. s outstanding common stock, (ii) any person known to the Company as the owner of more than 5% of Gerdau S.A. s outstanding preferred stock, and (iii) the total amount of the common and preferred stock owned by the members of the board of directors and executive officers of the Gerdau S.A. as a group.

Shareholder	Common Shares	%	Preferred Shares	%
Metalúrgica Gerdau S.A.	439,481,675	76.61	252,841,484	21.86
Banco BTG Pactual S.A.	34,209,522	5.96		0.00
Members of the board of directors and executive officers as a group (15 members)	62,720	0.02	3,488,899	0.30

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Metalúrgica Gerdau S.A. is a holding company that directly and indirectly controls all Gerdau companies in Brazil and abroad. Metalúrgica Gerdau and its subsidiaries hold 76.61% of the voting capital stock of Gerdau S.A. and thus have the ability to control the Company s Board of Directors as well as its management and operations.

On January 31, 2014 there were 312,307,996 ADRs outstanding, representing 27.3% of Gerdau S.A. preferred shares and the number of record holders were 39.

B. RELATED-PARTY TRANSACTIONS

The Company s transactions with related parties consist of (i) loans, (ii) commercial operations and (iii) the payment of guarantees to some controlling companies. See Note 18 to the Consolidated Financial Statements (Related Party Transactions) for further information.

(i) Gerdau S.A. maintains loans with some of its subsidiaries and other affiliates through loan contracts, which are repaid under conditions similar to those prevailing in the open market. Loan agreements between Brazilian companies are adjusted by the monthly variation in the CDI (interbank deposit rate). The agreements with foreign companies are adjusted by contracted charges plus foreign exchange variation, when applicable.

(ii) Commercial operations between Gerdau S.A. and its subsidiaries or related parties basically consist of transactions involving the purchase and sale of inputs and products. These transactions are carried out under the terms and conditions established in the contract between the parties and under prevailing market conditions. The commercial operations include payments relating to loan guarantees.

(iii) The Company holds marketable securities in investment funds managed by a related-party bank. These marketable securities comprise time deposits and debentures issued by major Brazilian banks and treasury bills issued by the Brazilian government.

(iv) The Company pays a fee of 0.95% per year for debt guaranteed by a controlling related-party company.

The Company s transactions with related parties are presented below:

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Item	INTRA-GROUP AGREEMENTS Purpose of the Agreement	Relationship with issuer	Original Amount In thousands of R$	Date	Maturity or Deadline	Termination or extinction conditions	Outstanding Amount December 31, 2014	Largest amount during the period covered
1	Guarantee for company Dona Francisca Energética in a R$ 72,156 thousand loan granted by the BNDES in 2003. No remuneration.	Associate	72,156	07/15/03	12/2014	Settlement of the agreement	1,695	4,628
2	Guarantee for company Dona Francisca Energética in a R$ 37,448 thousand loan granted by Banco Bradesco in 2003. No remuneration.	Associate	37,448	06/16/03	12/2014	Settlement of the agreement	933	2,644
3	Guarantee for company Coquecol S.A.C.I., co-borrower of a global credit line for financing working capital in the amount of up to US$ 11 million	Subsidiary	24,229	04/01/14	02/2015	Settlement of the agreement	29,218	29,218
4	Guarantee for company Industrias Nacionales C. por A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of up to US$ 20,856,417,00.	Associate	112,852	03/24/14	03/2015	Settlement of the agreement	55,399	55,399
5	Guarantee for company Steelchem Trading Corporation, co-borrower of a global credit line for financing working capital in the amount of up to US$ 12 million	Associate	24,367	03/25/14	03/2015	Settlement of the agreement	31,874	31,874
6	Guarantee for company DIACO S.A., co-borrower of a global credit line for financing working capital in the amount of up to US$ 10 million.	Subsidiary	23,249	05/13/14	05/2015	Settlement of the agreement	26,562	26,562
7	Guarantee for company ACEROS CORSA S.A. de C.V., co-borrower of a global credit line for financing working capital in the amount of up to US$ 20 million, equivalent in MXN.	Associate	48,884	06/02/14	06/2015	Settlement of the agreement	46,459	48,029
8	Guarantee for company Industrias Nacionales C. por A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of up to US$ 30 million	Associate	73,326	06/09/14	06/2015	Settlement of the agreement	79,686	79,686
9	Guarantee for company Siderurica Zuliana, C.A., in a loan with Citibank in the amount of up to US$ 15 million on the agreement s date.	Subsidiary	12,132	06/15/14	06/2015	Settlement of the agreement	39,843	39,843
10	Guarantee for company Steelchem Trading Corporation, co-borrower of a global credit line for financing working capital in the amount of up to US$ 28 milion.	Associate	56,596	06/25/11	06/2015	Settlement of the agreement	74,374	74,374
11	Guarantee for company Gerdau Corsa S.AP.I de C.V. and Sidertul, in a loan with HSBC in the amount of up to MXN 1,860,000,000.00, equivalent to US$ 140 million on the agreement s date.	Associate	333,013	06/26/14	06/2015	Settlement of the agreement	305,743	319,463
12	Guarantee for company DIACO S.A., co-borrower of a global credit line for financing working capital in the amount of up to US$ 20 million.	Subsidiary	34,782	07/18/14	07/2015	Settlement of the agreement	53,124	53,124

13	Guarantee for company DIACO S.A., co-borrower of a global credit line for financing working capital in the amount of up to US$ 50 million.	Subsidiary	23,249	07/24/14	07/2015	Settlement of the agreement	132,810	132,810
14	Guarantee for company DIACO S.A., in a loan with JPMorgan in the amount of up to COP 107,310,000,000.00 equivalent to US$ 60 million on the agreement s date.	Subsidiary	140,556	08/02/12	07/2015	Settlement of the agreement	119,140	129,946
15	Guarantee for company Empresa Siderurgica del Peru S.A.A., in a loan with Tokyo Bank in the amount of up to US$ 100 milion on the agreement s date.	Subsidiary	242,630	10/04/15	08/2015	Settlement of the agreement	265,620	265,620
16	Renting agreement of commercial room of area of 840 m2 of buuilding placed on Av. Farrapos, 1811 - Porto Alegre/RS, Lessor: Gerdau Aços Longos S.A. Lessee: Grupo Gerdau Empreendimentos Ltda: Amount per month R$ 74 thousand	Subsidiary	71	01/01/13	12/2015	Maturity	74	74
17	Guarantee for company Comercial Gerdau S.A., co-borrower of a global credit line for financing working capital in the amount of up to US$ 4 million.	Subsidiary	9,804	09/30/14	09/2015	Settlement of the agreement	10,625	10,625
18	Guarantee for company Gerdau Corsa S.AP.I de C.V. in a loan with BBVA in the amount of up to MXN 1,554,000,000.00, equivalent to US$ 120 million on the agreement s date.	Associate	318,744	06/12/14	12/2015	Settlement of the agreement	280,455	280,455
19	Guarantee for company Gerdau Steel India Ltd., in a loan with Standard Chartered in the amount of up to INR 3,500,000,000.00, equivalent to US$ 65 million on the agreement s date.	Subsidiary	148,794	12/26/12	12/2015	Settlement of the agreement	98,327	144,059
20	Guarantee for company Gerdau Corsa S.AP.I de C.V. in a loan with Scotiabank in the amount of up to MXN 1,430,000,000.00, equivalent to US$ 110 million on the agreement s date.	Associate	292,182	08/14/14	02/2016	Settlement of the agreement	258,076	258,076
21	Guarantee for company Gerdau Corsa S.AP.I de C.V. in a loan with HSBC in the amount of up to MXN 1,320,000,000.00, equivalent to US$ 100 million on the agreement s date.	Associate	265,620	09/03/14	02/2016	Settlement of the agreement	238,224	238,224
22	Guarantee for company Empresa Siderurgica Del Peru S.A.A. in a loan with Banco Safra in the amount of up to US$ 75,000.00 on the agreement s date.	Subsidiary	90,986	09/17/12	04/2016	Settlement of the agreement	59,765	90,986
23	Guarantee for company Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A. in a loan with BNDES in the amount of up to R$ 900 million on the agreement s date.	Subsidiary	78,571	12/16/05	07/2016	Settlement of the agreement	27,050	78,571
24	Guarantee for Gerdau Aços Especiais S.A. in an electricity purchase and sale agreement with Duke Energy International, Geração Paranapanema S.A., in the present value of up to R$ 8.4 million.	Subsidiary	1,664	09/23/08	09/2016	Settlement of the agreement	8,354	8,354
25		Subsidiary	148,352	09/21/12	09/2016		79,686	121,315

	The Company is the guarantor of subsidiary Empresa Siderúrgica Del Peru S.A.A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US$ 80 million					Settlement of the agreement		
26	Guarantee for Diaco S.A. in a financing granted by Banco BBVA Colômbia of up to US$ 40 million on the agreement s date. No remuneration.	Subsidiary	55,832	06/19/12	10/2016	Settlement of the agreement	56,661	87,226
27	The Company is the guarantor of subsidiary Diaco S.A. in a loan with J.P. Morgan in the amount of up to COP 75,168,000,000.00 equivalent to US$ 40 million on the agreement s date.	Subsidiary	92,996	10/22/13	10/2016	Settlement of the agreement	83,454	96,992
28	The Company is the guarantor of subsidiary Sipar Aceros S.A., in a financing granted by Citibank in the amount of up to ARS 50,000,000.00 equivalent to US$ 6,2 million.	Subsidiary	15,154	06/27/14	06/2017	Settlement of the agreement	15,532	15,532
29	The Company is the guarantor of subsidiary Gerdau Steel India Ltd. in a loan with HSBC in the amount of US$ 25 million.	Subsidiary	58,565	12/19/13	08/2017	Settlement of the agreement	66,045	66,045
30	Co-guarantee for GTL Trade Finance Inc. in the 10-year Bond issued in October/2007 in an amount of up to US$ 1,5 billion. No remuneration.	Subsidiary	1,744,000	10/22/07	10/2017	Settlement of the agreement	2,312,371	3,639,450

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Item	INTRA-GROUP AGREEMENTS Purpose of the Agreement	Relationship with issuer	Original Amount In thousands of R$	Date	Maturity or Deadline	Termination or extinction conditions	Outstanding Amount December 31, 2014	Largest amount during the period covered
31	Guarantee for Industrias Nacionales C. por A. for the financing of up to US$ 34,935,000.00 granted by Banco BNP Paribas for the funding of the acquisition of 85% of the principal equipment.	Associate	59,229	05/28/10	12/2017	Settlement of the agreement	46,397	48,436
32	The Company is the guarantor of subsidiary Gerdau Steel India Ltd. in a loan with Tokyo Bank in the amount of INR 2,505,600,000.00 equivalent to US$ 40 million on the agreement s date.	Subsidiary	92,996	09/24/2013	09/2018	Settlement of the agreement	106,248	106,248
33	The Company is the guarantor of subsidiary Gerdau S.A.P.I. de C.V. in a loan with Sumitomo in the amount of MXN 990,750,000,000.00 equivalent to US$ 75 million on the agreement s date.	Subsidiary	67,341	03/19/14	03/2019	Settlement of the agreement	178,804	184,845
34	The Company is the guarantor of subsidiary Coquecol S.A.C.I., co-borrower of a loan with Riverport-Mizuho in the amount of up to US$ 15 million.	Subsidiary	33,540	04/09/14	04/2019	Settlement of the agreement	39,843	39,843
35	Co-guarantee for Gerdau Holdings Inc. in the 10-year Bond issued in November/2009 in an amount of up to US$ 1,25 billion. No remuneration.	Subsidiary	2,188,125	11/24/09	01/2020	Settlement of the agreement	1,669,695	2,878,805
36	Guarantee for company Gerdau Açominas S.A. in a loan with BNDES in the amount of up to R$ 776,616,380.00 on the agreement s date.	Subsidiary	416,629	12/04/12	01/2020	Settlement of the agreement	437,806	437,806
37	Guarantee for company Gerdau Açominas S.A. in a loan with NCE Banco do Brasil in the amount of up to R$ 430 million on the agreement s date.	Subsidiary	430,000	03/21/14	02/2020	Settlement of the agreement	430,000	430,000
38	Guarantee for company Gerdau Aços Especiais S.A. in a loan with NCE Banco do Brasil in the amount of up to R$ 70 million on the agreement s date.	Subsidiary	70,000	03/21/14	02/2020	Settlement of the agreement	70,000	70,000
39	The Company is the guarantor of subsidiary Gerdau Açominas S.A. in a loan with Banco do Brasil in the amount of R$ 660 million.	Subsidiary	660,000	09/24/13	08/2020	Settlement of the agreement	635,000	660,000
40	Co-guarantee for Gerdau Trade Inc. in the 10-year Bond issued in September/2010 in an amount of up to US$ 1,25 billion	Subsidiary	2,117,750	10/01/10	09/2021	Settlement of the agreement	3,151,581	3,151,581
41	Guarantee for Gerdau Açominas S.A. in financings and the opening of a letter of credit for expansion projects and the acquisition of equipment in an amount of up to US$ 291,959 thousand. No remuneration.	Subsidiary	437,387	11/05/10	02/2021	Settlement of the agreement	526,582	530,697

42	Co-guarantee for Gerdau Trade Inc. in the 10-year Bond issued in April/2013 in an amount of up to US$ 750,000,000.00.	Subsidiary	1,501,275	04/15/13	04/2023	Settlement of the agreement	1,735,827	1,735,827
43	Co-guarantee for GTL Trade Finance Inc. and Gerdau Holdings Inc.in the10- year Bond issued in April/2013 in an amount of up to US$ 1,165,629,000.00. No remuneration.	Subsidiary	2,606,346	04/29/14	04/2014	Settlement of the agreement	3,096,144	3,096,144
44	Guarantee for company Gerdau Aços Longos S.A. in a loan with BNDES in the amount of up to R$ 543,413,000.00 on the agreement s date.	Subsidiary	413,264	07/08/08	10/2024	Settlement of the agreement	378,024	413,264
45	Guarantee for company Gerdau Aços Longos S.A. in a loan with BBRB Pró DF II.	Subsidiary	12,834	08/05/09	10/2037	Settlement of the agreement	15,520	15,520
46	Co-guarantee for Gerdau Ameristeel US Inc. in the 25-year Bond issued in October/2012 in an amount of US$ 51 millions.	Subsidiary	103,596	10/18/12	10/2037	Settlement of the agreement	135,466	135,466
47	Co-guarantee for GTL Trade Finance Inc. in the 30-years Bond issued in April/2014 in an amount of US$ 500 millions. No remuneration.	Subsidiary	1,118,000	04/16/14	04/2044	Settlement of the agreement	1,328,100	1,328,100
48	Current account (asset) with Gerdau Aços Especiais S.A. Pays the monthly variation of the CDI.	Subsidiary		12/01/14	Undetermined	Not applicable	89	89
49	Current account (liability balance) with Gerdau Trade Inc. Pays the contracted charges plus exchange variance.	Subsidiary		09/17/10	Undetermined	Not applicable	5,151,285	5,151,285
50	Current account (liability balance) with Gerdau Aços Longos S.A. Pays the monthly variation of the CDI.	Subsidiary		07/31/05	Undetermined	Not applicable	1,941	33,449
51	Gerdau S.A. usually trades its own debentures on behalf of Gerdau Aços Especiais S.A., with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation.	Subsidiary			Undetermined	Maturity	27,269	27,269
52	Gerdau S.A. usually trades its own debentures on behalf of Gerdau Aços Longos S.A., with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation.	Subsidiary			Undetermined	Maturity	35,720	604,699
53	Gerdau S.A. usually trades its own debentures on behalf of Gerdau BG Participações S.A., with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation.	Parent Company			Undetermined	Maturity	881	7,920
54	Gerdau S.A. has accounts receivable derived from sales to subsidiaries (Gerdau Aços Longos S.A., Gerdau Aços Especiais Brasil, Gerdau Açominas, Gerdau Aços Especiais Europa Gerdau AZA S.A., Sidenor Villares Rolling Mill Rolls SL and Villares Corporation of America). Sales in the period amounted to R$ 12.570	Subsidiaries			Undetermined	Maturity	32,704	35,343
55	Gerdau S.A. has accounts payable derived from purchases to subsidiaries (Gerdau Aços Longos	Subsidiaries			Undetermined	Maturity	5,113	6,483

S.A., Gerdau Aços Especiais Brasil, Gerdau Açominas S.A. and Gerdau Aços Especiais Europa). Purchases in the period amounted 10.643.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The Company s financial statements are included in Item 18.

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Legal Proceedings

General

Like other Brazilian companies, Gerdau and its subsidiaries are party to proceedings with respect to tax, labor and civil matters, most of them arising in the regular course of business. Based on advice from legal counsel, management believes that the reserve for provisions is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution will not have a significant effect on its consolidated financial position of December 31, 2014.

The most significant legal and administrative disputes are detailed below. The amount disclosed for each dispute is as of December 31, unless otherwise stated. For further information on the reserve for contingencies, see Note 17 to the consolidated financial statements.

The following table summarizes the balances of provisions recorded for tax, civil and labor liabilities and related judicial deposits as of December 31, 2014, 2013 and 2012 (in thousands of reais):

Claims

	Reserve for Contingencies			**Judicial Deposits**		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
Tax	1,308,087	1,057,697	862,597	1,286,651	1,093,517	872,272
Labor	228,475	214,501	200,205	66,608	57,456	45,932
Other	39,793	22,400	18,579	77,606	4,434	4,374

Tax Provisions

Part of these provisions correspond to tax matters. The most significant provisions of contingencies are related to:

• R$ 26 million related to Tax on Circulation of Goods and Services (*Imposto sobre a circulação de Mercadorias e Serviços - ICMS*), the majority of which is related to credit rights involving the Finance Secretariat and the State Courts.

• R$ 34 million related to discussions on Social Contribution Tax on Profits (*Contribuição Social sobre o Lucro - CSLL*) and Income Tax (Imposto de Renda Pessoa Jurídica IRPJ).

• R$ 33 million related to the Emergency Capacity Charge (*Encargo de Capacidade Emergencial* ECE), and the Extraordinary Tariff Recomposition (*Recomposição Tarifária Extraordinária* RTE), which are charges included in the electric energy bills. The Supreme Court has upheld the constitutionality of the ECE, and for this reason, once the lawsuits are terminated, the judicial deposit made will be used to settle the provision. As to the RTE, the Company understands the charge as of a tax nature and, as such, incompatible with the National Tax System. For this reason the constitutionality of this charge is being challenged in court. The lawsuits are outstanding before the First and Second Instances of the Federal Justice. The Company has made a full deposit in court for the amount of the disputed charge.

• R$ 1.177 million related to (i) compensation of Contribution to the Social Integration Plan (*Contribuição ao Programa de Integração Social - PIS*) and Social Security Financing Contribution (*Contribuição para o Financiamento da Seguridade Social - COFINS*) credits, (ii) taxation of those Contributions over income in excess of sales, and (iii) exclusion of the Tax on Circulation of Goods and Services (*Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) from the basis of calculation of the Contributions.

• R$ 38 million related to other taxes, discussed in cases, for which the probability of loss is more likely than not.

There are other contingent tax liabilities, for which the probability of losses are not more likely than not and, therefore, are not recognized in the provision for contingencies. These claims are comprised by:

• The Company and its subsidiary, Gerdau Aços Longos S.A. and Gerdau Açominas S.A. are parties in legal proceedings related to Tax on Circulation of Goods and Services (*Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) discussions, mostly related to credit rights and aliquot differences. The total amount of the discussions is R$ 997 million. No reserve for contingency was set aside for these claims, as the probability of loss is not probable.

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• The Company and its subsidiaries, Gerdau Açominas S.A.; Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A., are part in discussions related to other taxes for which no reserve for contingency was established, as the probability of loss is less likely than not. The total amount involved is R$ 331 million.

• The Company and its subsidiaries, Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are part in legal proceedings discussing taxation of Corporate Income Tax (IRPJ) and Social Contribution Tax on Profits (Contribuição Social sobre o Lucro   - CSLL) over profits generated abroad, in the amount of R$ 1,386 million. The Company has not made a reserve for contingency, as the Company, with the assistance of its legal consultants consider the probability of loss as possible but not probable.

• The Company s subsidiaries, Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., have administratively challenged the disallowance of the deductibility of a premium generated through a corporate reorganization in 2005, in accordance with articles 7 and 8 of Law no. 9532/97. The premium was deducted from the tax bases of the income tax and social contribution on profits in the 2005-2010 period. The total updated amount under discussion is R$3,408 million. No reserve for contingency was established, since the Company believes, based on the opinion of its legal advisers, that the likelihood of an adverse decision is merely possible.

Labor Provisions

The Company is also defending labor proceedings, for which there is a provision as of December 31, 2014 of R$ 228 million. None of these lawsuits refers to individually significant amounts, and the lawsuits mainly involve claims due to overtime, hazardous and risk additional, among others. The balance in judicial deposits relate to labor provisions as at December 31, 2014, totaling R$ 67 million.

Other Provisions

The Company is also defending civil proceedings related to other provisions arising from the normal course of its operations. Such provisions for these claims amount as of December 31, 2014 to R$ 40 million. On the same date, judicial deposits related to these provisions amount to R$ 78 million. Other contingent liabilities for which chances of loss are not more likely than not, involving uncertainties as to their occurrence (and therefore, not included in the provision for contingencies), are comprised of:

Antitrust Proceedings

The antitrust process involving Gerdau S.A. is related to the representation of two civil construction syndicates in the state of São Paulo that alleged that Gerdau S.A. and other long steel producers in Brazil divide customers among them, violating the antitrust legislation. After investigations carried out by the National Secretariat of Economic Law (Secretaria de Direito Econômico or SDE) and based on public hearings, the SDE is of the opinion that a cartel existed. The process was sent to the Administrative Council for Economic Defense (Conselho Administrativo de Defesa Econômica or CADE), for judgment.

The CADE judgment was put on hold by an injunction obtained by Gerdau S.A., which aimed at annulling the administrative process, due to formal irregularities. This injunction was cancelled by appeals made by CADE and the Federal Government, and CADE proceeded with the judgment. On September 23, 2005, CADE issued a rule condemning the Company and the other long steel producers, determining a fine of 7% of gross revenues less excise taxes of each company, based on the year before the commencement of the process, due to cartel practices. The Company has appealed from this decision, and the appeal is pending of judgment.

The Company has proposed a judicial proceeding aiming to cancel the administrative process due to the above mentioned formal irregularities. If the Company is successful in this proceeding, the CADE decision can be annulled in the future.

On July 26, 2006, due to a reversal of decision terms pronounced by CADE, the Company appealed to the Justice using a new ordinary lawsuit which point out irregularities in the administrative procedures conducted by CADE. The federal judge designated for the analysis of the fact decided, on August 30, 2006 to suspend the effect of the CADE decision until a final decision is taken with respect to this judicial process and requested a guarantee through a stand-by letter amounting to 7% of gross revenue less taxes in 1999 (R$ 245 million). This ordinary lawsuit proceeds together with the injunction originally proposed on CADE. An order was announced on June 28, 2007, which made the parties aware of the decision from the lower court judge about the maintenance of the legal protection granted, after it was contested by CADE.

Prior to the CADE decision, the Federal Public Ministry of Minas Gerais (*Ministério Público Federal de Minas Gerais*) had presented a Public Civil Action, based on SDE opinion, without any new facts, accusing the Company of involvement in activities that breach antitrust laws. The Company presented its defense on July 22, 2005.

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Gerdau S.A. denies having engaged in any type of anti-competitive behavior and understands, based on information available that the administrative process until now includes many irregularities, some of which are impossible to resolve. The Company believes it has not committed any violation of anti-trust regulation, and based on opinion of its legal advisors believes in a reversion of this unfavorable outcome.

Other Civil Litigation

The Company is involved as a defendant, either directly or through its affiliates, in other disputes for which chances of loss are not more likely than not. The aggregate amount involved in such disputes is R$ 89.3 million.

No Material Effect

Management believes that the probability of losses as a consequence of other contingencies is not more likely than not. There can, however, be no assurance that a final judicial decision will be favorable to us in any of these or other proceedings, and that were they to arise, they would not have a materially adverse effect on the consolidated financial position of the Company, its consolidated results of operations or its future cash flows.

Dividend Distribution Policy

Brazilian Corporate Law generally requires the by-laws of each Brazilian corporation to specify a minimum percentage of the profits for each fiscal year that must be distributed to shareholders as dividends. The law requires a minimum payout of 25% of adjusted net income. Under the Company s bylaws, this percentage has been fixed at no less than 30% of the adjusted net income (according the section 19 of the Company s bylaws) for distribution for each fiscal year.

Dividends for a given fiscal year are payable from (i) retained earnings from prior periods and (ii) after-tax income for the same period, after the allocation of income to the legal reserve and to other reserves (Adjusted Net Income). In order to convert the dividends paid by the Company from *reais* into U.S. dollars, the institution providing the Company with custodial services (Custodian) will use the relevant commercial market exchange rate on the date that these dividends are made available to shareholders in Brazil. Under Brazilian Corporate Law, a Brazilian company is required to maintain a legal reserve, to which it must allocate 5% of net income determined in accordance with the Law for each fiscal year until such reserve reaches an amount equal to 20% of the company s paid-in capital. On December 31, 2014, in accordance with Brazilian GAAP, Gerdau S.A. s legal reserve amounted to R$ 628.2 million or 3.3 % of total paid-in capital of R$ 19,249.1 million.

According to Law 9,457, holders of Preferred Shares in a Brazilian corporation were entitled to dividends at least 10% greater than the dividends paid on Common Shares, unless one of three exceptions described in the Law holds. Gerdau S.A. s executive directors presented a proposal at the 2002 shareholders meeting, to grant both Common and Preferred shares 100% tag-along rights. Shareholders approved this measure and the right was extended to all shareholders, even though the new Brazilian Corporate Law only requires that such rights be granted to the common minority shareholders (and only for 80% of the consideration paid to the controlling shareholders).

Under the amendments to the Brazilian Corporate Law, by extending the tag along rights to minority shareholders, the Company no longer needs to comply with the requirement to pay an additional 10% premium on dividends paid to preferred shareholders. Following the approval and implementation of the amendments to the Company s bylaws to provide for the tag-along rights as described above, the Company now pays the stated minimum dividend of 30% of adjusted net profit (according the section 19 of the Company s articles of association) to all shareholders, from January 1, 2002 dividends paid to preferred shareholders no longer being subject to a minimum 10% premium over those paid to holders of common shares.

As a general requirement, shareholders who are non-resident in Brazil must have their Brazilian company investments registered with the Central Bank in order to be eligible for conversion into foreign currency of dividends, sales proceeds or other amounts related to their shares for remittance outside Brazil. Preferred Shares underlying the ADRs will be held in Brazil by the Custodian as agent for the Depositary Bank (Depositary). The holder of Preferred Shares will be the registered holder recorded in the preferred shares register.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian, on behalf of the Depositary, which will then convert such proceeds into U.S. dollars and deliver the same U.S. dollars to the Depositary for distribution to holders of ADRs. If the Custodian is unable to convert the Brazilian currency received as dividends into U.S. dollars immediately, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by any devaluation or depreciation of the Brazilian currency relative to the U.S. dollar that may occur before such dividends are converted and remitted. Dividends in lieu of the Preferred Shares paid to holders who are not resident in Brazil, including holders of ADRs, are not subject to Brazilian withholding tax.

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Interest on Capital Stock

Law 9,249 of December 1995, provides that a company may, at its sole discretion, pay interest on capital stock in addition to, or instead of, dividends. A Brazilian corporation is entitled to pay its shareholders interest on capital stock up to the limit of an amount computed as the TJLP (Long-Term Interest Rate) rate of return on its interest on capital stock or 50% of the net income (according BR GAAP) for the fiscal year, whichever is the lower. The payment of interest as described herein is subject to a 15% withholding income tax. See Item 10. Additional Information Taxation.

Dividend Policy

The Company currently intends to pay dividends on its outstanding Preferred Shares at its mandatory distribution rates for any particular fiscal year, subject to any determination by the Board of Directors that such distributions would be inadvisable in view of the Company s financial condition. On March 31, 2003, the Board of Directors approved a new policy for paying dividends and interest on capital stock on a quarterly basis.

Since 1999, dividends have been paid to holders of the Company s Common and Preferred Shares in *reais* and in U.S. dollars translated from *reais* at the commercial exchange rate on the date of payment. Relevant amounts are described in Item 3 - Key Information - Selected Financial Data.

B. SIGNIFICANT CHANGES

Board of Directors, Executive Committee and Board of Auditors.

Since January 1, 2015, Alfredo Huallem is no longer a Director of the Company and member of the Strategy Committee.

On April 4, 2014, Guilherme Chagas Gerdau Johannpeter was elected as an Officer and member of the Gerdau Executive Committee.

Buyback Program

On January 19, 2015, the Board of Directors authorized the Company to acquire shares of its own issuance, within a period of up to 3 months from the date of the authorization, respecting the limit of 30,000,000 preferred shares GGBR4) or American Depositary Receipts ADRs (GGB). This authorization has the purpose to attend the Long-Term Incentive Plan of the Company and its subsidiaries, keeping in Treasury, cancelling

or further selling in the market. The acquisition will be supported by retained earnings, being the Board responsible to define the number of shares and the opportunity of each operation.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Price Information

Preferred Stock

The following table presents high and low market prices in Brazilian *reais* for Gerdau S.A. preferred stock (GGBR4) listed on the São Paulo Stock Exchange (BOVESPA) for the periods shown, as well as the high and low market prices in U.S. dollars for the same period.

Closing Price GGBR4 Annual Basis (adjusted for dividends and events)

	Brazilian reais per Share		U.S. dollars per Share	
Year	**High**	**Low**	**High**	**Low**
2010	29.61	18.51	16.65	10.79
2011	23.47	10.49	14.00	6.53
2012	20.35	14.16	10.37	7.51
2013	19.07	11.74	9.35	5.23
2014	17.92	8.12	7.47	3.02

Source: Bloomberg

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Closing Price GGBR4 Quarterly Basis (adjusted for dividends and events)

	Brazilian reais per Share		U.S. dollars per Share	
Year	**High**	**Low**	**High**	**Low**
2013				
1Q	19.04	14.61	9.35	7.28
2Q	15.44	11.74	7.71	5.23
3Q	17.59	12.61	7.56	5.56
4Q	19.07	16.28	8.29	7.36
2014				
1Q	17.89	13.45	7.47	5.73
2Q	14.43	12.82	8.13	5.13
3Q	14.04	11.72	6.31	4.77
4Q	11.93	8.12	4.94	3.02

Source: Bloomberg

Closing Price GGBR4 Monthly Basis (adjusted for dividends and events)

	Brazilian reais per Share		U.S. dollars per Share	
Year	**High**	**Low**	**High**	**Low**
2014				
January	18.15	16.61	7.59	6.84
February	14.37	16.89	7.09	6.16
March	14.37	13.45	6.32	5.73
April	14.17	13.03	6.24	5.82
May	14.43	13.20	6.50	5.89
June	13.82	12.82	6.22	5.80
July	14.04	12.81	6.31	5.81
August	13.43	12.44	5.95	5.48
September	13.53	11.72	6.04	4.77
October	11.93	10.60	4.94	4.37
November	11.53	10.37	4.54	4.00
December	10.28	8.12	4.02	3.02
2015				
January	10.42	8.70	3.86	3.19
February	10.25	9.38	3.66	3.43
March, 26	11.21	9.79	3.54	3.30

Source: Bloomberg

The common and preferred stock are traded in the market, but only the common stock has voting rights. According to the Company s bylaws, however, specific rights are assured to the non-voting preferred shares. See Gerdau s bylaws, which are provided as an exhibit of this document.

American Depositary Receipts

The following table presents high and low market prices for Gerdau S.A. s American Depositary Receipts (ADRs) traded on the New York Stock Exchange (NYSE) for the periods shown:

Closing Price GGB Annual Basis (adjusted for dividends and events)

	U.S. dollars per Share	
Year	**High**	**Low**
2010	16.79	11.04
2011	14.22	6.53
2012	10.43	7.49
2013	9.51	5.32
2014	7.51	2.99

Source: Bloomberg

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Closing Price GGB Quarterly Basis (adjusted for dividends and events)

Year	U.S. dollars per Share	
	High	Low
2013		
1Q	9.51	7.32
2Q	7.75	5.32
3Q	7.68	5.60
4Q	8.26	7.41
2014		
1Q	7.51	5.74
2Q	6.50	5.83
3Q	6.31	4.78
4Q	4.91	2.99

Source: Bloomberg

Closing Price GGB Monthly Basis (adjusted for dividends and events)

Year	U.S. dollars per Share	
	High	Low
2014		
January	7.62	6.88
February	7.10	6.22
March	6.32	5.74
April	6.27	5.83
May	6.50	5.88
June	6.22	5.83
July	6.31	5.83
August	5.99	5.52
September	6.02	4.78
October	4.91	4.40
November	4.51	4.03
December	4.02	2.99
2015		
January	3.83	3.23
February	3.70	3.44
March, 26	3.53	3.31

Source: Bloomberg

Common Stock

The following table presents high and low market prices in Brazilian *reais* for Gerdau S.A. common stock (GGBR3) listed on the São Paulo Stock Exchange (BOVESPA) for the periods shown, as well as the high and low market prices in U.S. dollars for the same period.

Closing Price GGBR3 Annual Basis (adjusted for dividends and events)

	Brazilian reais per Share		U.S. dollars per Share	
Year	**High**	**Low**	**High**	**Low**
2010	22.70	13.99	12.43	8.09
2011	17.43	8.91	10.39	5.36
2012	16.24	12.01	8.42	6.25
2013	16.63	10.75	8.19	4.81
2014	14.73	7.00	6.22	2.60

Source: Bloomberg

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Closing Price GGBR3 Quarterly Basis (adjusted for dividends and events)

	Brazilian reais per Share		U.S. dollars per Share	
Year	High	Low	High	Low
2013				
1Q	16.63	13.09	8.19	6.52
2Q	13.66	10.75	6.77	4.81
3Q	14.72	11.20	6.55	4.94
4Q	15.53	13.67	6.91	6.16
2014				
1Q	14.73	10.80	6.22	4.58
2Q	11.61	10.24	5.25	4.63
3Q	11.36	9.98	5.10	4.06
4Q	10.29	7.00	4.25	2.60

Source: Bloomberg

Closing Price GGBR3 Monthly Basis (adjusted for dividends and events)

	Brazilian reais per Share		U.S. dollars per Share	
Year	High	Low	High	Low
2014				
January	15.00	13.42	6.34	5.53
February	13.57	11.63	5.70	4.98
March	11.54	10.80	5.08	4.58
April	11.56	10.61	5.13	4.74
May	11.61	10.77	5.25	4.81
June	11.32	10.24	5.09	4.63
July	11.36	10.24	5.11	4.63
August	11.02	10.01	4.85	4.42
September	11.20	9.98	5.00	4.06
October	10.29	8.84	4.25	3.61
November	9.53	8.75	3.78	3.36
December	8.51	7.00	3.32	2.60
2015				
January	8.53	7.12	3.16	2.70
February	8.47	7.67	2.98	2.77
March, 26	8.54	7.98	2.81	2.49

Source: Bloomberg

B. DISTRIBUTION PLAN

Not required.

C. MARKETS

São Paulo Stock Exchange - Brasil

Trading on the BOVESPA

The São Paulo Stock Exchange (BOVESPA) is the only stock trade center in Brazil and Latin America s largest stock exchange. Until August, 2007, BOVESPA was a non-profit association owned by its member brokerage firms and trading on the BOVESPA was limited to these member brokerage firms and a limited number of authorized nonmembers. On August 28, 2007, BOVESPA was subject to a corporate restructuring process that resulted in the creation of BOVESPA Holding S.A., a public corporation which had, as fully-owned subsidiaries, the São Paulo Stock Exchange S.A. (Bolsa de Valores de São Paulo S.A. BVSP) responsible for the operations by the stock exchange and the organized over-the-counter markets and the Brazilian Clearing and Depositary Corporation (Companhia Brasileira de Liquidação e Custódia) responsible for the settlement, clearing and

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depositary services. Such corporate restructuring has consolidated a demutualization process, thereby causing the access to the trading and other services rendered by the BOVESPA not conditioned to a stock ownership. On May 8, 2008, BOVESPA was subject to another corporate restructuring process that resulted in the creation of BM&F BOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros, a public corporation which merged the operations of BOVESPA Holding S.A. and BM&F S.A. On November 28, 2008, Brazilian Clearing and Depositary Corporation (Companhia Brasileira de Liquidação e Custódia), fully-owned subsidiary of BM&F BOVESPA S.A., was merged into BM&F BOVESPA S.A.

The BOVESPA s trading is conducted between 10:00 a.m. and 5:00 p.m. on the BOVESPA automated system. There is also trading on the so-called After-Market, a system that allows for evening trading through an electronic trading system. Trades are made by entering orders in the Mega Bolsa electronic trading system, created and operated by BOVESPA. The system places a ceiling on individual orders of R$ 100,000 and price variations are limited to 2% (above or below) the closing quote of the day.

In order to better control volatility, the BOVESPA adopts a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the index of the BOVESPA falls below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session. If any circuit breaker takes place during the day, trading sessions thereafter may be suspended by a period of time to be determined as per BOVESPA s own discretion whenever the index of the BOVESPA falls below the limit of 20% in relation to the index registered in the trading session of the day before.

Since March 17, 2003, market making activities have been allowed on the BOVESPA. The CVM (Comissão de Valores Mobiliários) and the BOVESPA have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading of securities listed on the BOVESPA may be effected off the stock exchange market under certain circumstances, although such trading is very limited.

Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling shareholders that rarely trade their shares. For this reason, data showing the total market capitalization of the BOVESPA tends to overstate the liquidity of the Brazilian equity market, which is relatively small and illiquid compared to major world markets.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date.

Trading on the BOVESPA by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment legislation. See specific regulation for foreign investments in Brazil.

Corporate Governance Practices in Brazil

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and the *Novo Mercado*, aimed at encouraging Brazilian companies to follow good corporate governance practices and higher levels of transparency,

as required by Brazilian Corporate Law. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders rights and enhance the quality of information provided to shareholders.

The Company is listed on the Level 1 segment of the BOVESPA. To become a Level 1 company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (i) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading; (ii) adopt offering procedures that favor widespread ownership of shares whenever making a public offering; (iii) comply with minimum quarterly disclosure standards, including cash flow statements; (iv) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers; (v) disclose the terms of the transactions with related parties; (vi) make a schedule of corporate events available to shareholders; and (vii) at least once a year, hold public meetings with analysts and investors.

On March 21, 2011, CVM approved the new text of the Corporate Governance Level 1 Listing Rules of BM&FBOVESPA that became effective on **May 10, 2011.** As of the effective date aforementioned, therefore, the companies listed on Level 1segment of BM&FBOVESPA are subject to what has been laid out in the Corporate Governance Level 1 Listing Rules, in accordance with the changes.

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In order to be adapted to the changes to the Listing Rules, the companies listed in Level 1 segment must adopt, in addition to the rules, aforementioned, the following provisions within the terms informed below:

a) Inclusion in the company bylaws of the mandatory minimum clauses set out by BM&FBOVESPA no later than: (i) the first Extraordinary General Meeting held 90 (ninety) days after the new Rules entered into force; or (ii) the date on which the company holds its general meeting to approve the financial statements; what happens first.

b) The preparation and publication of the Policy on Trading Securities and the Code of Conduct, which should occur within the deadline of one year as from the date on which the new Listing Rules came into force;

c) Compliance, as from May 10, 2014, with the rule contained in item 4.3 of the new Corporate Governance Level 1 Listing Rules, which consists of a prohibition on the accumulation in a Company of the position of Chairman of the Board of Directors and Chief Executive Officer or lead executive by the same person.

Regulation of the Brazilian Securities Market

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, and by the Brazilian Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by the Brazilian Securities Law (Law N. 6,385 of December 7, 1976, as amended) and the Brazilian Corporate Law (Law N. 6,404 of December 15, 1976, as amended).

Law 11,638, of December 28, 2007, and Law N. 11,941, of May 27, 2009 (which resulted from the conversion into law of Provisional Decree (MP) N. 449, of December 3, 2008), amended a number of provisions of Law N. 6,385/76 and Law N. 6,404/76, related to accounting rules and financial statements of Brazilian corporations. The new changes aim to bring Brazilian accounting rules/financial statements closer to international standards.

Under the Brazilian Corporate Law, a company is either publicly held, such as Gerdau S.A., or closely held. All publicly held companies must apply for registration with the CVM and are subject to ongoing reporting requirements. A publicly held company may have its securities traded either on the BOVESPA or on the Brazilian over-the-counter markets (Brazilian OTC). The shares of a publicly held company, including Gerdau S.A., may also be traded privately subject to certain limitations established in CVM regulations.

CVM has issued Instruction N. 480, of December 7, 2009, that provides for the requirements for the registration of publicly held companies and companies that intend to trade securities in regulated securities markets. The referred CVM Instruction N. 480/09 significantly modified the reporting requirements applicable to publicly held companies and set forth the obligation to such companies to present annually to CVM a Reference Form (Formulário de Referência) containing all of the company s relevant information and to update the information contained therein as soon as any relevant changes occur.

In addition to such reporting requirements, the occurrence of certain events also requires disclosure of information to the CVM, the BOVESPA, or even the public. These include (i) the direct or indirect acquisition by an investor of at least 5% (five percent) of any class or type of shares representing the share capital of a publicly held company, (ii) the sale of shares representing the transfer of control of a publicly held company and (iii) the occurrence of a material event to the corporation. On March 5, 2002, the CVM issued Instruction N. 361, which regulates tender offers if one of the following events occurs: (i) delisting of companies; (ii) an increase in the equity interest of the controlling shareholder; or (iii) the transfer of control of a public held company.

The Brazilian OTC market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a publicly held company to be traded on the Brazilian OTC. The CVM must be notified of all trades carried out on the Brazilian OTC by the company s respective intermediaries. The trading of a company s securities on the BOVESPA may be suspended in anticipation of a material announcement. Trading may also be suspended at the initiative of the BOVESPA or the CVM on the basis of a belief that a company has provided inadequate information regarding a material event, has not provided an adequate response to the inquiries by the CVM or the stock exchange, or for other reasons.

The laws and regulations regarding the Brazilian Securities Market provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders. Although many changes and improvements have been introduced, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or those in certain other jurisdictions.

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Regulation of Foreign Investment in Brazil

Foreign investors may either register their investments in the Company s shares as a foreign direct investment under Law N. 4,131/62 and CMN (*Conselho Monetário Nacional*) Resolution N. 3,844/10 or as a portfolio investment under CMN Resolution N. 2,689/00 and CVM Instruction N. 325/00, both as amended. Foreign investors, regardless of whether their investments are made as foreign direct investments or portfolio investments, must be enrolled with the RFB (*Receita Federal do Brasil*, the Brazilian internal revenue service) pursuant to its Regulatory Instruction N. 1,183, of August 22, 2011, as amended. This registration process is undertaken by the investor s legal representative in Brazil.

Law N. 4,131/62 and CMN Resolution N. 3,844/10 provide that, after a foreign direct investment is made, an application for its registration with the Central Bank must be submitted by the investee and the non-resident investor, through its independent representatives in Brazil, within 30 days. The registration of the foreign direct investment with the Central Bank allows the foreign investor to remit abroad resources classifiable as capital return, resulting either from: (i) the transfer of corporate interests to Brazilian residents, (ii) capital reduction, or (iii) the liquidation of a company, as well as funds classified as dividends, profits or interest on shareholders equity. Foreign investors with foreign direct investments may also divest those investments through private transactions or transactions conducted through the stock exchange or the over-the-counter market. See *Taxation Brazilian Tax Considerations* for information regarding the taxation of such transactions.

There are no restrictions on ownership of the Company s shares by individuals or legal entities domiciled outside Brazil. With certain limited exceptions, under CMN Resolution N. 2,689/00 investors are permitted to carry out any type of transaction in the Brazilian financial and capital markets involving a security traded on a stock, futures or organized over-the counter markets. Investments and remittances outside of Brazil of gains, dividends, profits or other payments for common and preferred shares are made through the exchange market. See *Exchange Controls* for further information regarding non-Brazilian holders who qualify under CMN Resolution N. 2,689/00.

Securities and other financial assets held by non-Brazilian investors pursuant to CMN Resolution N. 2,689/00 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Trading on Exchanges outside Brazil

In addition to the BOVESPA, Gerdau shares are traded on two other stock exchanges:

New York Stock Exchange

On March 10, 1999, Gerdau S.A. obtained registration for the issuance of Level II ADRs, which began trading on the New York Stock Exchange the same day. Under the GGB symbol, these Level II ADRs have been traded in virtually every session since the first trading day. In 2014, 1.5 billion ADRs were traded, a figure 4.7% lower than in 2013, representing a trading volume of $8.3 billion, equivalent to a daily average of $32.5 million.

Latibex Madrid Stock Exchange

Since December 2, 2002, Gerdau S.A. s preferred shares have been traded on the Latibex, the segment of the Madrid Stock Exchange devoted to Latin American companies traded in Euros. Following approval by the CVM and the Brazilian Central Bank, this date marked the beginning of the Depositary Receipts (DR) Program for preferred shares issued by the Company in Spain. The shares are traded in Spain under the symbol XGGB in the form of DRs, each corresponding to one preferred share. This participation in the Latibex boosted the Company s visibility in the European market. In 2014, a total of 801 thousand Gerdau preferred shares were traded on the Madrid Stock Exchange (Latibex), a figure 12.3% lower than in 2013, representing a trading volume of $5.7 million, equivalent to a daily average of $19 thousand.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

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B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Gerdau s bylaws have been registered with the Public Registry of the State of Rio de Janeiro (Junta Comercial do Rio de Janeiro) under company number (NIRE) 33.3.0003226-6.

The consolidated By-laws are incorporated by reference hereto as Exhibit 1.1.

Objects and Purposes

According to the consolidated By-laws of the Company, its objects and purposes are described in the article 2, as stated below:

Art. 2 - The Company, which will have an unlimited lifetime, has the following purposes: a) interests in the capital of companies actuating in the industry and trade of steel and/or metallurgical products, with plants integrated to ports or not, as well as other companies and industrial consortia, including activities of research, mining, ore industrialization and trading, elaboration, execution and administration of forestation and reforestation, as well as the trade, export and import of goods, conversion of forests into charcoal, transport of goods of its own manufacture and port operator activities, referred to in Law 8.630, of February 8, 1993; and b) industry and trade exploitation, including representation, importing and exporting of steel, iron and related products.

Summary of Special Conditions Relating to Directors and Officers

Although the bylaws do not specifically address this matter, the Company, its directors and officers are obliged to adhere the provisions of Law 6.404/76 (Corporate Law), which regulates corporations in Brazil, and also observes the rules of the Brazilian Stock Exchange Commission (CVM) and the São Paulo Stock Exchange (BM&FBOVESPA).

In general terms, Section 153 of the Corporate Law establishes that in exercising his/her duties, a company director or officer shall employ the care and diligence, which a person normally employs in the administration of his/her own affairs.

In addition, Section154, paragraph 2 of the Corporate Law, states that directors and officers shall not: a) perform an act of liberality at the expense of the company; b) borrow money or property from the company or use company s property, services or credits for his/her own advantage or for the advantage of any entity in which he/she/any third party has an interest, without the prior approval of a general shareholders meeting or the board of directors; c) by virtue of his/her position, receive any type of direct or indirect personal benefit unless according to the Company s bylaws or a general shareholders meeting.

Finally, Section 156 of the Corporate Law states that: An administrator (member of the board of directors and executive officers) shall not take part in any corporate transaction in which he/she has an interest which conflicts with an interest of the corporation, nor in the decisions made by the other officers on the matter.

Regarding the decision on director s compensation, the bylaws of the Company state that the shareholders are in charge of defining the global remuneration of the administrators (member of the board of directors and executive officers) and the board of directors is in charge of fixing the individual remuneration of directors and officers (article 6, letter j of the bylaws).

With regard to borrowing powers exercisable by the directors , the bylaws state that:

- Article 6, letter u : The Board of Directors should set on a periodic basis, value criteria, time of duration, extension of effects, etc., for which certain company acts, including loans by and to the Company, may only be effected by one or more Executive Officers or after prior authorization by the Executive Committee;
- Article 6, § 7º: The Board may decide to create specific committees linked to itself, which shall include one or more of its members, with or without the participation of Executive Officers, Company employees or contracted third-parties with the aim of coordinating or orienting certain corporate processes or operations.

Rights, preferences and restrictions attaching to each class of the shares

Gerdau s capital stock is divided into common and preferred shares.

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Rights to dividends

All common and preferred shares enjoy the same rights to dividends, which are established by the Company s bylaws as a minimum mandatory percentage of 30% of net income, with the following adjustments:

a) the addition to the following amounts:

- amounts arising during the fiscal year from the reversal of previous contingency reserves;
- amounts resulting from the realization, during the fiscal year, of profits that have previously been transferred to the unrealized profit reserve line;
- amounts arising from the realization during the fiscal year of increases in the value of assets, as a result of new valuations, recorded as revaluation reserve.

b) the subtraction of amounts assigned during the fiscal year for the constitution of legal reserves, the reserve for contingencies, the unrealized profit reserve and the tax incentive reserve.

For additional information, please see the item Dividend Policy above.

Voting rights

According to Gerdau´s bylaws, the common shares have voting rights and the preferred shares have no voting rights although the holders of preferred share are entitle to attend to shareholders meetings and to participate in the discussions.

Note, however, that the Company s bylaws state, in Article 19, Paragraph 11, that the preferred shares shall acquire the right to vote if the Company, for three consecutive fiscal years, fails to pay the minimum dividends to which they are entitled, a right that the shares will hold until the first subsequent payment of dividends that the Company makes.

Shareholders representing the majority of a) holders of preferred shares without voting rights (or with restricted voting rights) representing 10% of the total capital stock; and b) holders of at least 15% of the voting capital stocks; shall have the right to elect and remove from office a member and his substitute from the board of directors, in a separate election at the general meeting, being excluded from such election the majority shareholder.

If neither the holders of shares with voting rights nor the holders of preferred shares without voting rights or with restricted voting rights are sufficient to achieve the quorum above, they shall be allowed to aggregate their shares in order to jointly elect a member and his substitute for the board of directors, in this case considering the quorum of 10% of the capital.

Shareholders representing at least one-tenth of the voting capital may also request that the election of directors be subject to cumulative voting, if present this request to the company up to 48 hours prior to the general shareholders meeting.

Notwithstanding the provisions aforementioned, the controlling shareholders shall always have the right to elect the majority of the members of the board of directors of a Brazilian company.

Based upon section 161, paragraph 4th of Corporate Law, the holders of preferred shares without voting rights or with restricted voting rights shall be entitled to elect one member of the board of auditors and his alternate in a separate election. The minority shareholders shall have the same right, provided that they jointly represent ten per cent or more of the voting shares.

Rights to the reimbursement of capital

The preferred shares enjoy preference in the reimbursement of capital, up to the value of their respective interest in the capital stock, in the event of the Company s dissolution, after which the common shares are reimbursed up to the value of their respective fractional participation in the capital stock, with the remaining balance distributed on equal conditions among the holders of the common and preferred shares.

Liability to further capital calls and Shareholders owning a substantial number of shares

There are no specific provisions in the bylaws of liability to further capital calls by the Company or provisions discriminating against any existing or prospective holder of such securities as a result of such shareholder owning a substantial number of shares.

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Changes to the rights

The Brazilian Corporate Law states, in its Section 109, that neither the bylaws nor a general meeting may deprive a shareholder of the right:

a) to participate in the corporate profits;

b) to participate in the assets of the corporation in the case of liquidation;

c) to supervise the management of the corporate business as provided for in the Corporate Law;

d) of first refusal in the subscription of shares, founders shares convertible into shares, debentures convertible into shares and subscription bonuses, and

e) to withdraw from the corporation in the cases provided for in the Corporate Law.

Furthermore, Section 16, sole paragraph of Corporate Law set forth that, unless expressly provided for, an amendment to that part of the bylaws which regulates the different classes of shares shall require the approval of the shareholders of all shares thereby affected.

On the same hand, Section 136, paragraph1st of Corporate Law states that any changes in the preferences or rights of the preferred shares, or the creation of a class of shares having priority in relation to the existing preferred shares, unless the change is authorized by our bylaws, would require the approval of the preferred shareholders in a special shareholders meeting, in addition to approval by the majority of the holders of the outstanding voting shares.

Annual general meetings and extraordinary general meetings of shareholders

The call for the annual general meeting and extraordinary general meeting of Gerdau shall be made by a notice published on at least three occasions in the Valor Econômico, Rio de Janeiro edition, Valor Econômico, São Paulo edition, and Diário Oficial do Estado do Rio de Janeiro. The call shall contain, in addition to the place, date and time of the general meeting, the agenda and, in the case of an amendment to the bylaws, an indication of the subject-matter.

The first call of the general meeting shall occur fifteen (15) days in advance, and the second call eight (8) days in advance.

Apart from the exceptions provided by law, the opening of a general meeting shall occur on first call with the presence of shareholders representing at least one-quarter of the voting capital; and on the second call, with any number.

The investors attending a general meeting shall produce proof of their shareholder status. According to Gerdau s bylaws, the Company may require, within a period established in the notice of calling, the depositing of proof of ownership of shares, submitted by the financial institution acting as depositary for the same shares, as well as to suspend, for the same period, transfer and stock split services.

A shareholder may be represented at a general meeting by a proxy, appointed less than one year before, who shall be a shareholder, a corporation officer, a lawyer or a financial institution. A condominium shall be represented by its investment fund officer.

A request for the appointment of a proxy, made by post or by public notice, shall satisfy the following requirements:

a) contain all information necessary to exercise the requested vote;

b) entitle the shareholder to vote against a resolution by appointing another proxy to exercise the said vote;

c) be addressed to all shareholders whose addresses are kept by the corporation.

Subject to the requirements aforementioned, any shareholder whose shares with or without voting rights represent one-half percent or more of the capital shall be entitled to request a list of the addresses of the shareholders

The legal representative of a shareholder shall receive an authorization to attend general meetings.

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Limitations on the rights of non-residents and foreign shareholders to own securities

There are no limitations on the rights to own securities by non-residents or foreign shareholder set forth in the Bylaws of Gerdau S.A. The Brazilian Corporate Law neither establishes limitation. Note that some procedures shall be observed by the foreign companies for the remittance of funds (see item 10.D, below).

A shareholder resident or domiciled abroad must maintain a representative in Brazil empowered to accept service of process in proceedings brought against him under this Law.

Change in control of the company

Brazilian Corporate Law states that the direct or indirect transfer of control of a publicly held corporation can only be effective under the condition that the purchaser agrees to conduct a public offer to acquire the voting shares owned by the remaining shareholders.

Our bylaws attribute to all shares the right to be included in any public offering involving the transfer of control, guaranteeing the same price paid per share with voting rights that are part of the controlling block.

Disclosure of shareholders ownership

With regard to the disclosure of ownership, shareholders hall observe the rule 358 enacted by the Brazilian Exchange Commission, which sets forth that:

Article 12. The direct or indirect controlling shareholders and the shareholders that elected members of the Board of Directors and the Board of Auditors, as well as any person or company or group of people acting together or representing the same interest that have either direct or indirect participation corresponding to 5% (five percent) or more in type or class of shares representing the capital of a publicly held company, shall send to the company the following information:

I - the announcers name and qualification, indicating their National Register of Legal Persons or the Register of Natural Persons;

II - objective of the participation and quantity envisaged, if it is the case, including a declaration of the buyer that purchases will not alter the composition of the control or administrative structures of the company; III - number of shares, subscription bonus, as well as rights to subscribe to shares and options to buy shares, by sort and type, already held, directly or indirectly, by the assignor or linked person.

IV - number of convertible debentures into shares, already held, directly or indirectly, by the assignor or linked person, explaining the quantity of shares intended to the converted, by sort and type;

V - indication of any agreement or contract regulating the right to vote or purchase and sale securities issued by the company; and

VI if the shareholder has its residence or domicile abroad, the name or social denomination and the Brazilian Tax Payer Number of its attorney or legal representative in the country, in compliance with section 119 of law 6.404 of 1976.

Paragraph 1. Individuals or groups of individuals representing a common interest are also under the obligation to disclose the same information, given they are shareholders holding shares of equal or higher stockholdings percentages stated in this article, every time this participation increases 5% (five per cent) of the sort or type of representative share of the company s share capital.

Paragraph 2. The obligations provided for in the caput and paragraph 1 are also extended to the acquisition of any rights over shares and further securities stated there.

Paragraph 3. The communication referred to in the caput shall be performed immediately after the mentioned participation is accomplished.

Paragraph 4. The people mentioned in the caput of this article shall also communicate the alienation or extinction of shares and other securities mentioned in this article, or of rights over them, every time the participation of the owner in type or class of the securities mentioned reaches 5% (five percent) of the total of such type or class, and every time such participation is reduced by 5% (five percent) of the total in type or class.

Paragraph 5.In cases when the acquisition results or has been carried out with the objective of changing the control s composition or the governance structure of the company, as in case when the acquisition generates the obligation of making a public offer, according to the applicable regulation, the acquirer must promote the disclosure, at least, in the same communication channels regularly adopted by the company, in compliance with section 3, paragraph 4, of a notice with the information predicted in line I to V of this article caput.

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Paragragh 6. The Investor Relations Director is responsible for transmitting the information, as soon as they are received by the company, to CVM and, if applicable, to the stock exchange or organized over-the-counter market entities in which the company trades is shares, as update the IAN form in the correspondent field.

Conditions more stringent governing changes in the capital than is required by law

There are no conditions imposed by the bylaws more stringent than is required by Law governing changes in the capital.

C. MATERIAL CONTRACTS

For information concerning material contracts regarding the acquisition of assets, see Item 4 Company Information, Item 5 Operating and Financial Review and Prospects and Item 8 Financial Information. Gerdau S.A. has entered into financial agreements in order to finance its expansion projects and improve its debt profile. Although some of these contracts entail significant amounts, none exceeds 10% of the Company s consolidated total assets. The most significant financial agreements are described below, with the Company agreeing to provide a copy of the debt instruments described herein to the Securities and Exchange Commission upon request.

Bonds - The Company, through its subsidiaries GTL Trade Finance Inc., Gerdau Holdings Inc. and Gerdau Trade Inc., concluded in 2007, 2009, 2010, 2013 and 2014, the issuance of bonds each with maturity of 10 and 30 years (collectively Ten/Thirty Years Bond). The following companies guaranteed these transactions: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. On December 31, 2014, the outstanding balance of these bonds was R$ 13.1 billion.

GGWCF - On December 16, 2013, the Company concluded the roll-over and increase of its Senior Unsecured Global Working Capital Credit Agreement which is a US$ 1.5 billion revolving credit line with the purpose of providing liquidity to its subsidiaries. The following companies guarantee this agreement: Gerdau S.A, Gerdau Açominas S.A, Gerdau Aços Longos S.A and Gerdau Aços Especiais S.A. The line is divided into two tranches, being US$ 500 million for Gerdau s North American subsidiaries borrowing needs and the other US$ 1 billion for Gerdau s Latin American and Spanish subsidiaries borrowing needs. This transaction has a tenor of 3 years. As of December 31, 2014, the outstanding loans under the line totaled US$ 305.9 million (R$ 812.5 million as of December 31, 2014) and are classified as working capital (US$).

BNDES - In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau S.A.) entered into a credit line with BNDES in the total amount of R$ 1.5 billion bearing an interest rate of TJLP + 2.16% per annum when drawn. On December 31, 2014 the outstanding amount was R$ 924.7 million.

D. EXCHANGE CONTROLS

There are no restrictions on ownership or voting of the Company s paid-in capital by individuals or legal entities domiciled outside Brazil. The right to convert dividend payments and proceeds from the sale of the Company s paid-in capital into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally require, among other things, the prior registration of the relevant investment with the Central Bank.

In Brazil, a mechanism is available to foreign investors interested in trading directly on the BOVESPA. Until March 2000, this mechanism was known as Annex IV Regulations, in reference to the Annex IV of CMN Resolution N. 1,289/87 (Annex IV Regulations). Currently, this mechanism is regulated by CMN Resolution N. 2,689/00.

CMN Resolution N. 2,689/00, which took effect on March 31, 2000, establishes rules for foreign investments in Brazilian equities. Such rules allow foreign investors to invest in almost all types of financial asset and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled.

Pursuant to CMN Resolution N. 2,689/00, foreign investors are defined as individuals, legal entities, mutual funds and other collective investments resident, domiciled or headquartered abroad. CMN Resolution N. 2,689/00 prohibits the offshore transfer or assignment of title to the securities, except in the cases of (i) corporate reorganization effected abroad by a foreign investor or (ii) inheritance.

Pursuant to CMN Resolution N. 2,689/00, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) fill in the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with the CVM; (iv) appoint an authorized custodian in Brazil for its investment and (v) register the

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foreign investment with the Central Bank. The securities and other financial assets held by the foreign investor pursuant to CMN Resolution N. 2,689/00 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, securities trading are restricted to transactions carried out on exchanges or organized over-the-counter markets licensed by the CVM. All investments made by a foreign investor under CMN Resolution N. 2,689/00 will be subject to electronic registration with the Central Bank.

CMN Resolution N. 1,927/92 of the National Monetary Council, which is the Amended and Restated Annex V to CMN Resolution N. 1,289/87 (Annex V Regulations), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Since ADRs have been approved under the Annex V Regulations by the Central Bank and the CVM, the proceeds from the sale of the ADRs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADRs will be subject to a more favorable tax treatment. According to CMN Resolution N. 2,689/00, foreign investments registered under Annex V Regulations may be transferred to the new investment system created by CMN Resolution N. 2,689/00 and vice versa, with due regard to the conditions set forth by the Central Bank and by the CVM.

A foreign investment registration has been made in the name of The Bank of New York Mellon, as Depositary for the Preferred ADRs, and is maintained by Itaú Unibanco S.A. (Custodian) on behalf of the Depositary. Since July 1, 2013, JPMorgan Chase Bank is the Depositary for the Preferred ADRs (Depositary) and is also maintained by Itaú Unibanco S.A. (Custodian) on behalf of the new Depositary. Pursuant to the registration, the Custodian and the Depositary are able to convert dividends and other distributions with respect to the Preferred Shares represented by Preferred ADRs into foreign currency and remit the proceeds abroad. Subject to the provisions set forth in Annex V Regulations, holders of preferred ADRs may exchange such ADRs for the underlying Preferred Shares. In this event, such a holder will be entitled to continue to rely on the Depositary s registration of foreign investment for only five business days after such exchange, after which time, the same holder must seek its own registration with the Central Bank.

The Registered Capital for Preferred Shares that are withdrawn upon surrender of Preferred ADRs will be the U.S. dollar equivalent to (i) the average price of the Preferred Shares on the BOVESPA on the day of withdrawal, or (ii) if no Preferred Shares were sold on such day, the average price of Preferred Shares that were sold in the fifteen trading sessions immediately preceding the same withdrawal. The U.S. dollar value of the Preferred Shares is determined on the basis of the average Foreign Exchange rates quoted by the Central Bank on the same date (or, if the average price of Preferred Shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the Preferred Shares). A non-Brazilian holder of Preferred Shares may experience delays in effecting the registration of Registered Capital, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Thereafter, unless the Preferred Shares are held pursuant to CMN Resolution No. 2,689/00 or to Law N. 4,131/62 by a foreign investor, the same holder may not be able to convert into foreign currency and remit the proceeds outside Brazil from the disposal of, or distributions with respect to, such Preferred Shares, and will generally be subject to less favorable Brazilian tax treatment than a holder of Preferred ADRs.

Restrictions on the remittance of foreign capital overseas could hinder or prevent the Custodian, as custodian for the Preferred Shares represented by Preferred ADRs, or holders who have exchanged Preferred ADRs for Preferred Shares, from converting dividends, distributions or the proceeds from any sale of Preferred Shares into U.S. dollars and remitting such U.S. dollars abroad. Holders of Preferred ADRs could be adversely affected by delays in, or refusal to grant any required government approval for conversions of Brazilian currency payments and remittances abroad of the Preferred Shares underlying the Preferred ADRs.

Exchange Rates

Before March 2005, there were two legal foreign exchange markets in Brazil, the commercial market and the floating market. The difference between these two markets was the type of transaction that could be performed through each market.

On March 4, 2005, through CMN Resolution N. 3,265 (revoked and replaced by CMN Resolution N. 3,568, of May 29, 2008), CMN introduced a single foreign exchange market and abolished the legal differences between the referred Commercial and Floating Markets. Among the modifications to foreign exchange market rules is a greater freedom to remit funds abroad through the foreign exchange market. On the other hand, the so-called CC5-Accounts , which are bank accounts in *reais* held in Brazil by foreign entities, may no longer be used to transfer funds on behalf of third parties.

On March 24, 2010, the CMN approved Resolution No. 3,844, adopting a series of measures to consolidate and simplify the Brazilian foreign exchange regulations. These changes are expected to reduce the effective cost of foreign exchange transactions and

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the related administrative expenses for both the public and private sectors as well as to provide more legal certainty to the parties to such transaction.

In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar.

The current exchange rates from U.S Dollar to Brazilian Reais are demonstrated in the table of item 3.A, Exchange rates between the United States Dollar and Brazilian Reais .

E. TAXATION

The following summary contains a description of the main Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of common shares, preferred shares and ADRs. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase these securities. In particular, this summary deals only with holders of common shares, preferred shares or ADRs as capital assets (generally, property held for investment) and does not address the tax treatment of a holder that may be subject to special tax rules, like a bank, an insurance company, a dealer in securities, a person that will hold common shares, preferred shares or ADRs in a hedging transaction or as a position in a straddle , conversion transaction or other integrated transaction for tax purposes, a person that has a functional currency other than the U.S. dollar, a person liable for alternative minimum tax, a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) or a person that owns or is treated as owning 10% or more of the voting shares of the Company. Prospective purchasers of common shares, preferred shares or ADRs should consult their own tax advisors as to the personal tax consequences of their investment, which may vary for investors in different tax situations. The summary is based upon tax laws of Brazil and the United States and applicable regulations, judicial decisions and administrative pronouncements as in effect on the date hereof. Such authorities are subject to change or new interpretations, possibly with retroactive effect. Although there is no income tax treaty between Brazil and the United States at this time, the tax authorities of the two countries have had discussions that may culminate in a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of common shares, preferred shares or ADRs. This summary is also based upon the representations of the Depositary (as defined below) and on the assumption that each obligation in the Deposit Agreement relating to the ADRs and any related documents will be performed in accordance with its terms.

Brazilian Tax Considerations

The following discussion summarizes the main Brazilian tax consequences of the acquisition, ownership and disposition of common shares, preferred shares or ADRs by a holder that is not resident or domiciled in Brazil for purposes of Brazilian taxation (Non-Resident Holder).

The following is a general discussion only. It does not specifically address all of the Brazilian tax considerations applicable to any particular Non-Resident Holder. The discussion does not address the effects of any tax treaties or reciprocity of tax treatment entered into by Brazil and other countries. This discussion also does not address any tax consequences under the laws of any state or municipality of Brazil.

Income tax

Dividends

Dividends derived from profits generated on or after January 1, 1996, paid by a Brazilian corporation such as our company, including stock dividends and other dividends paid to a Non-Resident Holder of common shares, preferred shares or ADRs, are currently exempt from income tax in Brazil, as provided by Federal Law no. 9,249, of December 26, 1995.

Recent changes to the Brazilian accounting rules (introduced as from the enactment of Federal Law no. 11,638, of December 28, 2007, and Federal Law no. 11,941, of May 27, 2009) have raised a debate as to whether such exemption should apply only with regard to profits calculated in accordance with the previous accounting rules, which remained generally applicable for tax purposes under a Transitional Tax Regime (*Regime Tributário de Transição* RTT), or also to profits calculated under the new accounting rules.

On February 7, 2013, the National Treasury Attorney-General s Office (*Procuradoria Geral da Fazenda Nacional* PGFN) issued Opinion PGFN/CAT no. 202, sustaining that only the distribution of the fiscal profit , i.e., the profit calculated in accordance with the previous accounting rules, would be tax exempt. Thus, corporate profits , i.e., the profits calculated in

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accordance with the new accounting rules, paid out by companies from 2008 onwards, in excess of the fiscal profits, would be subject to income taxation. Said Opinion does not clarify the applicable tax rate as regards payments made to a Non-Resident Holder; in any event, the general rules on the taxation of Non-Resident Holders determine that income tax would have to be withheld by the distributing entity at the rate of 15%, or of 25% in the case of a Non-Resident Holder that is domiciled or resident in a Tax Favorable Jurisdiction. Please refer to Tax Favorable Jurisdictions below for a definition of this concept.

This line of argument was upheld by Normative Ruling (*Instrução Normativa*) no. 1,397, issued by the Brazilian tax authorities (*Receita Federal do Brasil*) on September 16, 2013, which states that tax exempt dividends are only those calculated in accordance with the previous accounting rules (in force until December 31, 2007).

Provisional Measure (PM) no. 627, of November 11, 2013, which was enacted with the goal of extinguishing the RTT, and in order to adjust the then existing tax rules to the new Brazilian accounting rules, similarly provided that dividends in excess of the fiscal profits (paid out from 2008 to November 12, 2013) would be deemed taxable, except if the payer of such dividends elected to apply the rules of the PM during the 2014 fiscal year (PM no. 627/13 was generally only set to enter in force in 2015).

However, upon the conversion of PM no. 627/13 into Federal Law no. 12,973, of May 13, 2014, the wording of the rules related to the taxation of dividends was altered; said Law expressly recognized that the distribution of dividends based upon corporate profits earned between January 01, 2008 and December 31, 2013, even in excess of the fiscal profits, are exempt from taxation.

Federal Law no. 12,973/14 did not provide clear guidance, however, as to the tax treatment of dividends paid in relation to profits earned during the 2014 calendar-year.

With regard to dividend distributions made by the corporate taxpayers that elected to apply the rules of Federal Law no. 12,973/14 during the 2014 calendar-year, there should be no reason for the tax exemption granted by Federal Law no. 9,249/95 to be challenged, inasmuch as the new accounting rules will have to be observed by corporate taxpayers, also for tax purposes.

On the other hand, the corporate taxpayers that did not make this election may still account, in 2014 calendar-year, for corporate profits (calculated in accordance with the new accounting rules) that are greater than fiscal profits (calculated according to the previous accounting rules). Therefore, the distribution of such an excess could be deemed taxable by the Brazilian tax authorities, in line with Opinion PGFN/CAT no. 202/13 and Normative Ruling no. 1,397/13. Notwithstanding, there would be grounds to sustain that the tax exemption set forth by Federal Law no. 9,249/95 is granted to all distributions of dividends, reason why the excess of corporate profits over fiscal profits could never be considered taxable. This is also the view of many Brazilian scholars, who have already opposed the understanding of the Brazilian tax authorities on the matter.

In the case at hand, the company did not elect to apply the rules of Federal Law no. 12,973/14 during the 2014 calendar-year, thus, at least theoretically, the company could have accounted for corporate profits in excess of fiscal profits in the mentioned calendar-year and, as a consequence, an issue could be raised with regard to the distribution of said excess profits. In practice, however, the company accounted for corporate profits in an amount lower than the fiscal profits accounted for in such calendar-year. Therefore, there should be no discussion as to the application of the tax exemption set forth by Federal Law no. 9,249/95 with regard to dividends paid out by the company related to profits

earned in 2014.

Interest Attributable to Shareholders Equity

As from the enactment of Federal Law no. 9,249/95, as amended, a Brazilian corporation, such as our company, is allowed to make distributions to shareholders of interest on shareholders equity and to treat such payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits, as far as the limits described below are observed. For tax purposes, this interest is limited to the daily *pro rata* variation of the Brazilian long-term interest rate (*Taxa de Juros de Longo Prazo* TJLP), as determined by the Brazilian Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50% of net income (after the deduction of social contribution on net profits and before taking into account the provision for corporate income tax and the amounts attributable to interest on shareholders equity) for the period in respect of which the payment is made; and

- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

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After the enactment of Federal Laws no. 11,638/07 and 11,941/09, it has become debatable as to whether the limitation for the deductibility of expenses related to interest on shareholders equity should take into consideration the accounting rules in force until December 31, 2007, or the new accounting rules introduced as from this date.

By means of Normative Ruling no. 1,397/13, the Brazilian tax authorities expressed their view that the computation of deductible interest on shareholders equity should take into consideration the Net Worth accounts reported in the company s balance sheet in accordance with the previous accounting rules. Thus, payments based on the new accounting rules which exceeded the amounts derived from the application of the previous accounting rules (in force until December 31, 2007) would be deemed nondeductible for tax purposes (to the extent of the excess amount).

PM no. 62713 similarly provided in the sense that payments of interest on shareholders equity based on the new accounting rules would generally be not deductible (also to the extent of said excess amount), unless the payer elected to apply the rules of the PM during the 2014 fiscal year (as already mentioned, PM no. 627/13 was set to enter in force only in 2015).

However, upon the conversion of PM no. 627/13 into Federal Law no. 12,973, of May 13, 2014, the wording of rules related to the deductibility of interest on shareholders equity was altered, and it was recognized that the corresponding payments made between 2008 and 2014 are fully deductible, even if the payer did not make the mentioned election for the 2014 calendar-year.

Payments of interest on shareholders equity made to a Non-Resident Holder are subject to withholding income tax at the rate of 15%, or 25% if the Non-Resident Holder is resident or domiciled in a Tax Favorable Jurisdiction. Please refer to Tax Favorable Jurisdictions for a definition of this concept.

Payments of interest on shareholders equity may be included, at their net value, as part of any mandatory dividend. To the extent a payment of interest on shareholders equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by such shareholders, after payment of the applicable withholding income tax, plus the amount of declared dividends, is at least equal to the mandatory dividend (gross-up method).

Capital Gains

According to Federal Law no. 10,833, of December 29, 2003, gains deriving from the transfer of assets located in Brazil by a Non-Resident Holder, whether to another non-Brazilian resident or to a Brazilian resident, may be subject to withholding income tax in Brazil.

With respect to a disposition of common or preferred shares, as these are assets considered to be located in Brazil, the Non-Resident Holder will be subject to withholding income tax on the realized gains, according to the rules described below.

As far as ADRs are concerned, although the matter is not entirely clear, arguably the gains realized by a Non-Resident Holder on the disposition of ADRs are not taxed in Brazil, based on the argument that ADRs are not assets located in Brazil for purposes of Article 26 of Federal Law no. 10,833/03. We cannot assure you, however, that Brazilian tax authorities or Brazilian tax courts will agree with this interpretation. Accordingly, in the event that ADRs are deemed to be assets located in Brazil for purposes of Article 26 of Federal Law no. 10,833/03, gains realized on a disposition of ADRs by a Non-Resident Holder will be subject to withholding income tax in Brazil, according to the rules described below.

In general, gains realized on the disposition of common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil) correspond to the positive difference between the amount realized on the disposition, and the cost of acquisition of the shares disposed of, measured in Brazilian *reais* (without any correction for inflation), in line with the views expressed by the Brazilian tax authorities on the matter (*see, e.g.,* the recently-enacted Normative Ruling no. 1,455, issued on March 06, 2014). There are grounds, however, for maintaining that the gains realized should be calculated taking into consideration the cost of the relevant investments in foreign currency, as so registered before the Brazilian Central Bank.

The rules related to whether or not withholding income tax must be levied on such gains will vary depending on the domicile of the Non-Resident Holder, the type of registration of the investment that must be made by the Non-Resident Holder before the Brazilian Central Bank, and how the disposition is carried out.

Gains realized on a disposition of common or preferred shares carried out on the Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market) are:

• exempt from income tax when assessed by a Non-Resident Holder that (1) has invested in Brazil under the rules set forth by the Brazilian Central Bank Qualified Portfolio Investor (in particular the National Monetary Council Resolution

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no. 2,689, of January 26, 2000, in force until March 30, 2015, and Resolution no. 4,373, of September 29, 2014, which is set to replace Resolution no. 2,689/00) and (2) is not domiciled or resident in a Tax Favorable Jurisdiction. Please refer to Tax Favorable Jurisdictions for a definition of this concept; or

- subject to income tax at a rate of 15% in any other case, including a case of gains assessed by a Non-Resident Holder that is not a Qualified Portfolio Investor, and of a Non-Resident Holder that is domiciled or resident in a Tax Favorable Jurisdiction. In these cases, a withholding income tax of 0.005% on the sale value will be applicable and can be later offset against income tax due on any capital gain realized on the transaction.

Gains realized on a disposition of common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil) that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, or of 25% in the case of a Non-Resident Holder that is domiciled or resident in a Tax Favorable Jurisdiction. Please refer to Tax Favorable Jurisdictions below for a definition of this concept. If these gains are related to transactions carried out on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against income tax due on any capital gain realized on the transaction.

In the event of a redemption of common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil) or of a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by the Non-Resident Holder and the acquisition cost of the respective common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil) will be treated as a capital gain derived from a disposition that is not carried out on a Brazilian stock exchange market, and therefore will be subject to withholding income tax at a rate of 15% or 25%, as the case may be.

Any exercise of preemptive rights relating to the common or preferred shares or ADRs will not be subject to Brazilian income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights relating to common shares, preferred shares or ADRs will be subject to Brazilian income tax according to the same rules described above.

A Non-Resident Holder of ADRs may cancel such ADRs and exchange them for common or preferred shares. Income tax may not be levied on such exchange, as long as the appropriate rules are complied with in connection with the registration of the investment before the Brazilian Central Bank, and as long as ADRs are not deemed to be assets located in Brazil .

The deposit of common or preferred shares by a Non-Resident Holder in exchange for ADRs may trigger Brazilian income tax on the capital gain presumably realized, at a rate of 15%, or 25% in the case of a Non-Resident Holder that is domiciled or resident in a Tax Favorable Jurisdiction. There are grounds to sustain, however, that such transaction should not trigger Brazilian income tax, provided that the appropriate rules are complied with in connection with the registration of the transaction before the Brazilian Central Bank.

There can be no assurance that the current favorable tax treatment granted to Qualified Portfolio Investors will continue in the future.

Tax Favorable Jurisdictions

The concept of Tax Favorable Jurisdiction is defined by Federal Law 9,430, of December 27, 1996, and included the countries or locations (1) that do not impose income tax, (2) where the maximum income tax rate is lower than 20% (such percentage may be reduced or restored by the Executive branch) or (3) whose laws do not allow access to information regarding the shareholding composition of legal entities, their ownership, or the identity of the beneficial owners of earnings attributable to non-residents. Normative Ruling no. 1,037, of June 04, 2010, as amended, expressly lists the countries or locations that fit into such definition.

The same Federal Law no. 9,430/96, as amended by Federal Law no. 11,727, of June 23, 2008, also sets forth the concept of Privileged Tax Regimes ; said regimes are also expressly listed by Normative Ruling no. 1,037/10. Notwithstanding, the mentioned concept does not seem relevant for purposes of determining the tax treatment applicable to investments made by Non-Resident Holders of common shares, preferred shares and ADRs, although one cannot completely disregard the risk that tax authorities argue otherwise.

Ordinance (*Portaria*) no. 488, issued by the Brazilian Ministry of Finance on November 28, 2014, lowered the threshold at which countries or locations are deemed to be Tax Favorable Jurisdictions (*see* item (2), above), from 20% to 17%.

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Tax on Foreign Exchange Transactions

Brazilian law imposes a Tax on Foreign Exchange Transactions (IOF/FX) due on the liquidation of foreign exchange agreements related to the conversion of Brazilian *reais* into foreign currency and on the conversion of foreign currency into Brazilian *reais*.

Currently, as a general rule, IOF/FX is levied at the rate of 0.38%. There are, however, a number of exceptions to such general rule (as provided by Article 15-B of Decree no. 6,306, of December 14, 2007, as amended).

Foreign exchange transactions for the inflow of funds into Brazil in connection with investments made by foreign investors in the Brazilian financial and capital markets are currently subject to IOF/FX at a zero percent rate.

Foreign exchange transactions for the outflow of funds in connection with the return of investments made in the Brazilian financial and capital markets are also subject to IOF/FX at a zero percent rate. The same rate applies on the outflow of funds in connection with payments of dividends and interest on shareholders equity made by Brazilian companies.

The Brazilian government is permitted to increase the rate of the IOF/FX at any time up to 25%. However, any increase in rates will only apply to transactions carried out after this increase in rates enters into force.

Tax on Transactions Related to Bonds and Securities

Brazilian law imposes a Tax on Transactions Related to Bonds and Securities (IOF/Bonds) due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. Currently, IOF/Bonds is levied at the rate of 0% in most transactions involving common or preferred shares, including the transfer of shares traded in Brazilian stock exchanges with the specific purpose of enabling the issuance of depositary receipts to be traded outside Brazil.

The Brazilian government is allowed to increase the rate of the IOF/Bonds at any time up to 1.5% per day of the transaction amount. However, any increase in rates may only apply to transactions carried out after this increase in rates enters into force.

Other Brazilian Taxes

There are no specific Federal Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common or preferred shares or ADRs, except for gift and inheritance taxes that may be imposed by Brazilian states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of common or preferred shares or ADRs.

United States Tax Considerations

U.S. Federal Income Tax Considerations

The following discussion summarizes the principal U.S. federal income tax considerations relating to the purchase, ownership and disposition of Preferred Shares or Preferred ADRs by a U.S. holder (as defined below) holding such shares or ADRs as capital assets (generally, property held for investment). This summary is based on the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the IRS) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations.. This summary does not the federal tax laws other than those pertaining to U.S. federal income taxation (such as estate or gift tax laws), nor does it address any aspects of U.S. state or local or non-U.S. taxation. U.S. holders are urged to consult their own tax advisers regarding such matters.

This summary does not purport to address all material U.S. federal income tax consequences that may be relevant to a U.S. holder of a Preferred Share or Preferred ADR, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, U.S. expatriates, investors liable for the alternative minimum tax, partnerships and other pass-through entities, investors that own or are treated as owning 10% or more of the Company s voting stock, investors that hold the Preferred Shares or Preferred ADRs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, and U.S. holders whose functional currency is not the U.S. dollar) may be subject to special tax rules.

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As used herein, a U.S. holder is a beneficial owner of a Preferred Share or Preferred ADR that is, for U.S. federal income tax purposes, (i) a citizen or resident alien individual of the United States, (ii) a corporation (or an entity taxable as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person. For purposes of this discussion, a non-U.S. holder is a beneficial owner of a Preferred Share or Preferred ADR that is not a U.S. holder or a partnership.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a Preferred Share or Preferred ADR, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of a Preferred Share or Preferred ADR that is a partnership and partners in that partnership are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Preferred Shares or Preferred ADRs.

Nature of Preferred ADRs for U.S. Federal Income Tax Purposes

The following summary assumes that the representations contained in the deposit agreement among us, The Bank of New York Mellon, as depositary, and the holders and beneficial owners from time to time of ADRs issued thereunder are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. In general, for U.S. federal income tax purposes, a holder of a Preferred ADR will be treated as the owner of the underlying Preferred Shares. Accordingly, except as specifically noted below, the tax consequences discussed below with respect to Preferred ADRs will be the same for Preferred Shares in the Company, and exchanges of Preferred Shares for Preferred ADRs, and Preferred ADRs for Preferred Shares, generally will not be subject to U.S. federal income tax.

For purposes of the following summary, any reference to Preferred Shares shall be understood to also include reference to the Preferred ADRs, unless otherwise noted.

Taxation of Distributions

U.S. holders

In general, subject to the passive foreign investment company (PFIC) rules discussed below, a distribution on a Preferred Share will constitute a dividend for U.S. federal income tax purposes to the extent that it is made from the Company s current or accumulated earnings and profits as determined under U.S. federal income tax principles. If a distribution exceeds the amount of the Company s current and accumulated earnings and profits, it will be treated as a non-taxable reduction of basis to the extent of the U.S. holder s tax basis in the Preferred Share on which it is paid, and to the extent it exceeds that basis it will be treated as capital gain. The Company does not intend to calculate its earnings and profits under U.S. federal income tax principles. Therefore, a U.S. holder should expect that a distribution on a Preferred Share generally will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. For purposes of this discussion, the term dividend means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividend on a Preferred Share (which will include the amount of any Brazilian taxes withheld) generally will be subject to U.S. federal income tax as foreign source dividend income and will not be eligible for the corporate dividends received deduction. In the case of a Preferred Share, but not a Preferred ADR, the amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the day that the U.S. holder receives the dividend. In the case of a dividend received in respect of a Preferred ADR, the amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the date the Depositary receives it, whether or not the dividend is converted into U.S. dollars. A U.S. holder will have a tax basis in any distributed Brazilian currency equal to its U.S. dollar amount on the date of receipt, and any gain or loss realized on a subsequent conversion or other disposition of the Brazilian currency generally will be treated as U.S. source ordinary income or loss. If dividends paid in Brazilian currency are converted into U.S. dollars on the date they are received by a U.S. holder or the Depositary or its agent, as the case may be, the U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders are urged to consult their own tax advisers regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the Depositary or its agent is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for hedged positions, any dividend that a non-corporate U.S. holder receives on a Preferred Share will generally be subject to a maximum Federal income tax rate of 20% if the dividend is a qualified dividend. A dividend on a Preferred Share will be a qualified dividend if (i) the Preferred Shares are readily tradable on an established securities market in the

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United States, (ii) the U.S. holder meets the holding period requirement for the Preferred Share (generally more than 60 days during the 121-day period that begins 60 days before the ex-dividend date), and (iii) the Company was not, in the year prior to the year the dividend was paid, and is not, in the year the dividend is paid, a passive foreign investment company (PFIC).

The Preferred ADRs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on existing guidance, it is not entirely clear whether a dividend on a preferred share will be treated as a qualified dividend, because the preferred shares themselves are not listed on a U.S. exchange. As discussed below under PFIC Rules, the Company does not believe that it was a PFIC for U.S. federal income tax purposes for its 2014 taxable year, nor does it anticipate being classified as a PFIC in its current taxable year or future taxable years. Given that the determination of PFIC status involves the application of complex tax rules, and that it is based on the nature of the Company s income and assets from time to time, no assurances can be provided that the Company will not be considered a PFIC for the current (or any past or future) taxable year.

The U.S. Treasury Department has announced its intention to promulgate detailed rules pursuant to which holders of stock of non-U.S. corporations, and intermediaries through whom the stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those detailed procedures have not yet been issued, it is not clear whether the Company will be able to comply with them. Special limitations on foreign tax credits apply to dividends subject to the reduced rate of tax for qualified dividends. U.S. holders of Preferred Shares are urged to consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder s U.S. federal income tax liability, subject to generally applicable limitations under U.S. federal income tax law. For purposes of computing those limitations separately for specific categories of income, a dividend generally will constitute foreign source passive category income or, in the case of certain holders, general category income . A U.S. holder will be denied a foreign tax credit with respect to Brazilian income tax withheld from dividends received with respect to the underlying Preferred Shares to the extent the U.S. holder has not held the Preferred Shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent the U.S. holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the Preferred Shares are not counted toward meeting the 16-day holding period required by the statute. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers to determine whether and to what extent they will be entitled to foreign tax credits as well as with respect to the determination of the foreign tax credit limitation.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADRs are transferred may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADRs. Accordingly, the discussion above regarding the credibility of Brazilian withholding taxes could be affected by future actions that may be taken by the IRS.

Non-U.S. holders

A dividend paid to a non-U.S. holder on a Preferred Share will not be subject to U.S. federal income tax unless the dividend is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States). A non-U.S. holder generally will be subject to tax on an effectively connected dividend in the same manner as a U.S. holder. A corporate non-U.S. holder may also

be subject under certain circumstances to an additional branch profits tax, the rate of which may be reduced pursuant to an applicable income tax treaty.

Taxation of Capital Gains

U.S. holders

Subject to the PFIC rules discussed below, on a sale or other taxable disposition of a Preferred Share, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder s adjusted basis in the Preferred Share and the amount realized on the sale or other taxable disposition, each determined in U.S. dollars. Such capital gain or loss will be long-term capital gain or loss if at the time of the sale or other taxable disposition the Preferred Share has been held for more than one year. In general, any adjusted net capital gain of a non-corporate U.S. holder is subject to a maximum Federal income tax rate of 20%. The deductibility of capital losses is subject to limitations.

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Any gain a U.S. holder recognizes generally will be U.S. source income for U.S. foreign tax credit purposes, and, subject to certain exceptions, any loss will generally be a U.S. source loss. If a Brazilian tax is withheld on a sale or other disposition of a Preferred Share, the amount realized will include the gross amount of the proceeds of that sale or other disposition before deduction of the Brazilian tax. The generally applicable limitations under U.S. federal income tax law on crediting foreign income taxes generally precludes a U.S. holder from obtaining a foreign tax credit for any Brazilian income tax withheld on a sale of a Preferred Share. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers regarding the application of such rules.

Non-U.S. holders

A non-U.S. holder will not be subject to U.S. federal income tax on a gain recognized on a sale or other disposition of a Preferred Share unless (i) the gain is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States), or (ii) in the case of a non-U.S. holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other taxable disposition and certain other conditions apply. Any effectively connected gain of a corporate non-U.S. holder may also be subject under certain circumstances to an additional branch profits tax, the rate of which may be reduced pursuant to an applicable income tax treaty.

PFIC Rules

A special set of U.S. federal income tax rules applies to a foreign corporation that is a PFIC for U.S. federal income tax purposes. Based on the Company s audited financial statements and relevant market and shareholder data, as well as the Company s current and projected income, assets and activities, the Company believes it was not a PFIC for U.S. federal income tax purposes for its 2013 taxable year, nor does it anticipate being classified as a PFIC in its current taxable year or future taxable years. However, because the determination of whether the Company is a PFIC is based upon the composition of its income and assets from time to time, and because there are uncertainties in the application of the relevant rules, it is possible that the Company will become a PFIC in a future taxable year (and no assurance can be provided that the Company will not be considered a PFIC for its current (or any past) taxable year).

If the Preferred Shares were shares of a PFIC for any taxable year, U.S. holders (including certain indirect U.S. holders) will generally be subject to adverse tax consequences, including the possible imposition of ordinary income treatment for gains or excess distributions (generally a distribution in excess of 125% of the average distributions received during the past three years or, if shorter, the U.S. holder s holding period) that would otherwise be taxed as capital gains or dividends, along with an interest charge on gains or excess distributions allocable to prior years in the U.S. holder s holding period during which the Company was determined to be a PFIC. If the Company is deemed to be a PFIC for a taxable year, dividends on a Preferred Share would not constitute qualified dividends subject to preferential rates of U.S. federal income taxation. In addition, if the Company is deemed to be a PFIC for a taxable year, U.S. holders would be subject to increased reporting requirements. U.S. holders are urged to consult their own tax advisers regarding the application of the PFIC rules.

Medicare Tax

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the United States holder s net investment income (or undistributed net investment income in the case of estates and trusts) for the relevant taxable year and (2) the excess of the United States holder s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual s circumstances). A holder s net investment income will generally include its dividend income and its net gains from the disposition of the Preferred Shares, unless such dividend income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your own tax advisor regarding the applicability of this Medicare tax to your income and gains in respect of your investment in our common stock.

Information Reporting and Backup Withholding

Under U.S. federal income tax law and the Treasury regulations, certain categories of U.S. holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on U.S. holders that hold certain specified foreign financial assets in excess of $50,000. The definition of specified foreign financial assets includes not only financial accounts

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maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U. S. holders may be subject to these reporting requirements unless their Preferred Shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. holders should consult with their own tax advisers regarding the requirements of filing information returns, and, if applicable, filing obligations relating to the PFIC rules.

Dividends paid on, and proceeds from the sale or other taxable disposition of, a Preferred Share to a U.S. holder generally may be subject to information reporting requirements and may be subject to backup withholding (currently at the rate of 28%) unless the U.S. holder provides an accurate taxpayer identification number or otherwise demonstrates that it is exempt. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder s U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is timely submitted to the IRS. A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

The Company makes its filings in electronic form under the EDGAR filing system of the U.S. Securities and Exchange Commission. Its filings are available through the EDGAR system at www.sec.gov. The Company s filings are also available to the public through the Internet at Gerdau s website at www.gerdau.com. Such filings and other information on its website are not incorporated by reference in this Annual Report. Interested parties may request a copy of this filing, and any other report, at no cost, by writing to the Company at the following address: Av. Farrapos, 1811 Porto Alegre-RS 90.220-005 Brazil or calling 55-51-3323 2703 or by e-mail at inform@gerdau.com.br. In compliance with New York Stock Exchange Corporate Governance Rule 303A.11, the Company provides on its website a summary of the differences between its corporate governance practices and those of U.S. domestic companies under the New York Stock Exchange listing standards.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

Gerdau is exposed to various market risks, which involve the fluctuation of exchange rates and interest rates. The Company uses derivatives and other financial instruments to reduce the impact of such risks on its financial assets and liabilities or future cash flows and earnings. Gerdau has established policies to assess market risks and to approve the use of derivate financial instruments transactions related to those risks. The Company enters into derivative financial instruments to manage the above mentioned market risks and never for speculative purposes.

Foreign Exchange Rate Risk

This risk is related to the possibility of fluctuations in exchange rates affecting the value of the Company s financial assets and liabilities or future cash flows and earnings. The Company assesses its exposure to such risk by measuring the difference between the value of its assets and the value of its liabilities in foreign currency. The Company understands that its receivables originated from exports, its cash and cash equivalent denominated in foreign currencies and its investments in companies abroad partially offset its liabilities denominated in foreign currencies. Whenever there is a mismatch between assets and liabilities denominated in foreign currency, the Company may enter into derivative financial instruments in order to mitigate the effect of fluctuations of foreign exchange rate.

Foreign currency sensitivity analysis: as of December 31, 2014, the Company is mainly exposed to variations between the Brazilian *real* and US Dollar. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian *real* and the US Dollar on debts that do not have hedge operations. The impact calculated considering such variation in

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the foreign exchange rate totals R$ 185,571 thousands and R$ 107,659 thousands after the effects of changes in the net investment hedge described in note 15.g, as of December 31, 2014 (R$ 166,257 thousands and R$ 73,726 thousands of December 31, 2013, respectively) and represents income if appreciation of the Brazilian *real* against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian *real* against the US Dollar, however due to the investment hedge these effects would be mitigated when considered the income tax and exchange rate variance accounts.

The net amounts related to accounts receivable and accounts payable in foreign currency do not represent relevant risks related to exchange rates fluctuation.

Interest rate risk

This risk is related to the possibility of fluctuations in interest rates affecting the value of the Company s financial assets and liabilities or future cash flows and earnings. The Company assesses its exposure to such risk by (i) comparing financial assets and liabilities denominated in fixed and floating interest rates and (ii) monitoring the movements in interest rates, such as LIBOR and CDI. Therefore, the Company may enter into an interest rate swap in order to mitigate this risk.

Interest rate sensitivity analysis: the interest rate sensitivity analysis made by the Company considers the effects of an increase or reduction of 10 basis point (bps) on the average interest rate applicable to the floating part of its debt. The impact calculated, considering this variation in the interest rate totals R$ 91,736 thousands as of December 31, 2014 (R$ 62,305 thousands as of December 31, 2013) and would impact the Financial expenses account in the Consolidated Statements of Income. The specific interest rates to which the Company is exposed are related to the loans, financing, and debentures presented in Notes 13 and 14, and are mainly comprised by Libor and CDI Interbank Deposit Certificate.

Commodity prices risk

This risk is related to the possibility of fluctuations in prices of products sold by the Company or in prices of raw material and other inputs used in the production process. Since the Company operates in a commodity market, its sales revenues and cost of sales may be affected by changes in the international prices of the products it sells or the raw materials it purchases. In order to minimize this risk, the Company constantly monitors the price variations in the domestic and international markets.

The sensitivity analysis made by the Company considers the effects of an increase or of a reduction of 1% on both prices. The impact measured considering this variation in the price of products sold, considering the net income and costs of the year ended on December 31, 2014, totals R$ 425,463 thousands (R$ 398,630 thousands as of December 31, 2013) and the variation in the price of raw materials and other inputs totals R$ 249,120 thousands as of December 31, 2014 (R$ 247,804 thousands as of December 31, 2013). The impact in the price of products sold and raw materials would be recorded in the accounts Net Sales and Cost of Sales, respectively, in the Consolidated Statements of Income. The Company does not expect to be more vulnerable to a change in one or more specific product or raw material.

Credit risk

This risk arises from the possibility of the Company not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the Company adopts the procedure of analyzing in detail the financial position of their customers, establishing a credit limit and constantly monitoring their balances. In relation to cash investments, the Company invests solely in financial institutions with low credit risk, as assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company s Credit Committee.

Capital management risk

This risk comes from the Company s choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between its financial debts and its own capital (Shareholders Equity, retained earnings, and profit reserves) based on internal policies and benchmarks. The BSC (Balance Scorecard) methodology was used in the last 5 years to elaborate strategic maps with objectives and indicators of the main processes. The KPI s (Key Performance Indicators) related to the objective Capital Structure Management are: WACC (Weighted Average Cost of Capital), Total Indebtedness/EBITDA, Interest Coverage Ratio, and Indebtedness/Shareholders Equity Ratio. Total Debt is composed of loans and financing (see Note 13 Consolidated Financial Statements) and debentures (see Note 14 - Consolidated Financial Statements). The Company can change its capital structure depending on economic-financial conditions in order to optimize its financial leverage and its debt management. At the same time, the Company tries to improve its ROCE (Return on Capital Employed) by implementing a working capital management process and an efficient fixed asset investment program.

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Liquidity risk

The Company s management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. DEBT SECURITIES

Not applicable.

B. WARRANTS AND RIGHTS

Not applicable.

C. OTHER SECURITIES

Not applicable.

D. AMERICAN DEPOSITARY SHARES

On March 10, 1999, Gerdau S.A. obtained registration for the issuance of Level II ADRs, which began trading on the New York Stock Exchange the same day. Under the GGB symbol, these Level II ADRs are equivalent to one preferred share of Gerdau S.A (GGBR4).

J.P. Morgan Chase Bank, as depositary, has agreed to reimburse the Company for expenses it incurs that are related to the maintenance of the ADS program. The depositary has agreed to reimburse the Company for its continuing and annual stock exchange listing fees. It has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, and to reimburse the Company annually for certain investor relations programs or special promotional activities. In certain instances, the depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary

collects from investors. During calendar year 2014, the depositary reimbursed the Company in the amount of US$ 1.9 million.

The depositary collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them.

The fees that ADR holders may be required to pay or incur are the following:

Depository Service	Fee payable by ADR holder
Transferring, splitting or grouping receipts	$1.50 per transfer of ADRs
Depositary services	$0.05 or less per ADR
Withdrawal or deposit/issuance and cancellations of shares underlying ADRs	$5.00 or less per 100 ADRs
Cash distributions	$0.05 or less per ADR

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure control and procedures

The Company has established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. And such information is accumulated and made known to the officers who certify the Company s financial reports and to other members of senior management and the Disclosure Committee as appropriate to allow timely decisions regarding required disclosure.

A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system will be met. Based on their evaluation as of December 31, 2014, the Chief Executive Officer and the Chief Financial Officer of the Company have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective at the reasonable assurance level.

The Disclosure Committee is composed of the Chief Executive Officer, Andre Bier Gerdau Johannpeter, the Chief Financial Officer and Executive Vice President, André Pires de Oliveira Dias, the Legal and Compliance Vice President, Expedito Luz, the Financial and Planning and Business Development Director Harley Scardoelli and the Corporate Communication & Public Affairs Director, Renato Gasparetto Junior. This Committee oversees and reviews all materials for which there is a legal disclosure requirement, together with all data required to support the documents mentioned above. This committee meets at regular intervals in order to review all data.

There have been no changes in our internal controls over Financial Reporting during the fiscal year 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In addition, there have been no significant changes in the Company s internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

Please see Exhibit 12.01 and 12.02 for the certifications required by this Item.

Management s Annual Report on Internal Controls over Financial Reporting

The management of Gerdau S.A. is responsible for establishing and maintaining adequate internal control over Financial Reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has documented and evaluated the effectiveness of the internal control over Financial Reporting of the Company as of December 31, 2014, in accordance with the criteria established in the Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the above evaluation, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

PricewaterhouseCoopers Auditores Independentes, an independent registered certified public accounting firm, has audited and issued their report on the consolidated financial statements of the Company and the effectiveness of the Company s internal controls over financial reporting.

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ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Shareholder s General Meeting has determined that Bolívar Charneski, a member of its Board of Auditors, is a financial expert and independent within the meaning of the SEC rules applicable to disclosure of such expertise.

ITEM 16B. CODE OF ETHICS

In 2011, Gerdau S.A. integrated its three previous codes - Gerdau Ethical Guidelines, Gerdau Ameristeel s Code of Ethics and Business Conduct and Gerdau Ameristeel Code of Ethics for Senior Executives into one single Code of Ethics applicable to all of Gerdau s business units around the world.

The provisions of the Code are thus binding on Gerdau s Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Compliance Officer and other persons performing similar functions.

The Code of Ethics is focused on the ethics and compliance issues most important to a publicly-held company and meets all applicable legal requirements.

The code is organized according to the Company s values which are: (a)Be the Customer s choice, (b)Safety above all, (c)Respected, engaged and fulfilled Employees, (d)Pursuing excellence with simplicity, (e)Focus on results, (f)Integrity with all stakeholders and, (g) Economic, social and environmental sustainability.

The code instructs all employees to follow a number of steps when reporting violations. The company has implemented an Ethics Helpline to which all employees may refer in the case of any violations of the code.

The purpose and the contents of the current Code of Ethics have been made public to all employees and have been the object of in-company training.

In the same manner as the three previous codes mentioned in the first paragraph, the actual Code of Ethics meets the definition contemplated by applicable SEC and New York Stock Exchange rules, covering wrongdoing related to business conduct, conflicts of interest, disclosure in

reports and other documents, as well as compliance with legislation.

The Gerdau Code of Ethics is filed herewith as exhibit 11.01 and also may be accessed through our Internet website (www.gerdau.com).

The Company did not grant any waiver from the Code provisions in the last fiscal year.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table provides information on fees billed to Gerdau for professional services rendered by the external auditors responsible for auditing the financial statements included in this Annual Report (in thousands of Brazilian Reais) which were PricewaterhouseCoopers for the year ended December 31, 2014 and 2013:

	2014	**2013**
Audit fees	12,876	11,801
Audit-related fees	2,019	123
All other fees	3,254	138
Total	**18,149**	**12,062**

Audit fees are related to professional services rendered in the auditing of Gerdau s consolidated financial statements, quarterly reviews of Gerdau s consolidated financial statements and statutory audits and interim reviews of certain of the Company s subsidiaries and affiliates as required by the appropriate legislation. Those amounts also include fees related to the audit of internal controls over financial reporting of Gerdau and of Gerdau Ameristeel.

Audit-related fees are for assurance and related services, such as due diligence services traditionally performed by an external auditor related to acquisitions, as well as consulting on accounting standards and transactions.

Other fees are mainly related to services provided to subsidiaries relating to tax compliance and tax services. The Company included as other fees a service agreement, dated February 17, 2014, between its subsidiary Gerdau Aços Longos S.A. and Strategy&, formerly Booz & Company, a company acquired on April 1, 2014 by PwC. The agreement had an approximate duration of

4 months and the services consisted of project consulting. The fees under said agreement amounted to R$ 2.8 million. Given the impartiality, objectiveness and independence demonstrated by the independent auditor with regard to its activities and to the subject-matter of the service agreement between Gerdau Aços Longos S.A. and Strategy&, the Board of Directors of Gerdau S.A. evaluated the merits of the potential conflict of interest in a meeting held on June 6, 2014, and, after considering the matter, decided that there was no reason to terminate the agreement.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

On April 28, 2005, the Company elected its Board of Auditors duly adapted to ensure compliance with the Sarbanes-Oxley Act requirements and exemptions from the listing standards. The Board of Auditors (Conselho Fiscal) has been operating in accordance with Brazilian Corporate Law 6,404/76, since April 2000. The customary role of this board is to monitor and verify the actions of company directors and executive officers and the compliance with their legal duties, providing opinions and official statements on the annual management report and the proposals of members of the Board of Directors, denouncing errors or fraud, calling meetings whenever necessary and analyzing financial statements. In establishing a permanent Board of Auditors, the Company has availed itself of paragraph (c)(3) of Rule 10A-3 of the U.S. Securities Exchange Act of 1934, as amended, which provides a general exemption from the audit committee requirements for a foreign private issuer (such as the Company) with a board of auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee s required purpose and detailing its required responsibilities. However, as a foreign private issuer, the Company needs only to comply with the requirement that the audit committee, or Board of Auditors in its case, meet the SEC rules regarding audit committees for listed companies. The Brazilian Corporate Law requires companies to have a non-permanent Board of Auditors composed of three to five members who are elected by the shareholders at the Ordinary General Meeting of Shareholders. The Board of Auditors operates independently from management and from a company s external auditors. Its main function is to monitor the activities of the management of the company, examine the financial statements of each fiscal year and provide a formal report to its shareholders.

The Company has a permanent Board of Auditors that consists of three up to five members and three up to five alternates and which has ordinary meetings every two months. The members of the Gerdau S.A. s Board of Auditors are all financially literate and one member has accounting expertise that qualifies him as an audit committee financial expert. Gerdau S.A. believes that its Board of Auditors, as modified, meets the requirements for the exemption available to foreign private issuers under the SEC rules regarding audit committees of listed companies. In addition, the Board of Auditors operates under a written charter and which the Gerdau S.A. believes meets the NYSE s requirements for audit committee charters. The Board of Auditors is not the equivalent of, or wholly comparable to, a U.S. audit committee. Among other differences, it is not required to meet the standards of independence established in Rule 10A-3 and is not fully empowered to act on matters that are required by Rule 10A-3 to be within the scope of an audit committee s authority. Nonetheless, with the duties that have been provided to the Board of Auditors to the extent permitted by Brazilian law, Gerdau S.A. believes that its current corporate governance system, taken as a whole, including the ability of the Board of Auditors to consult internal and external experts, is fully equivalent to a system having an audit committee functioning as a committee of its Board of Directors. For a further discussion of its Board of Auditors, see Item 6C. Board Practices - Board of Auditors .

The Board of Auditors members are elected at the Ordinary Shareholders Meeting for one-year terms. They are eligible for reelection. In Gerdau S.A. the Board of Auditors consists of three members and three alternates. As required by Brazilian law, members of the Board of Auditors must have college graduation or held office for at least three years as business administrators or as members of boards of auditors. The Board of Auditors, at the request of any of its members, may ask the external auditors to provide explanations or information and to investigate specific

facts.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On February 19th, 2013, the Board of Directors authorized the Company to acquire shares of its own issuance, up to 4,100,000 preferred shares (GGBR4) and American Depositary Receipts ADRs (GGB), exclusively in order to satisfy the Long-Term Incentive Plan for the Company and its subsidiaries, using the available cash supported by existing profit reserves, with the Executive Committee responsible for establishing the number of shares and the opportune moment for each transaction. The acquisition period is from February 19, 2013, for a maximum period of 365 days, until February 18, 2014. The Company did not buy any shares during the duration of this program.

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On January 19, 2015, the Board of Directors authorized the Company to acquire shares of its own issuance, within a period of up to 3 months from the date of the authorization, respecting the limit of 30,000,000 preferred shares GGBR4) or American Depositary Receipts ADRs (GGB). This authorization has the purpose to attend the Long-Term Incentive Plan of the Company and its subsidiaries, keeping in Treasury, cancelling or further selling in the market. The acquisition will be supported by retained earnings, being the Board responsible to define the number of shares and the opportunity of each operation.

ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Under the Corporate Governance Rules of the New York Stock Exchange, currently in effect, Gerdau S.A. is required to disclose any significant ways in which its corporate governance practices differ from those required to be followed by domestic companies under NYSE listing standard. These significant differences are summarized below.

The Company is permitted to follow practice in Brazil in lieu of the provisions of the Corporate Governance Rules, except that it is required to avail itself of an appropriate exemption to the requirement to have a qualifying audit committee under Section 303A.06 of the Rules and its Chief Executive Officer is obligated, under Section 303A.12(b), to promptly notify the NYSE in writing after any of its executive officers becomes aware of any material non-compliance with any applicable provisions of the Corporate Governance Rules.

Majority of Independent Directors: Under NYSE Rule 303A.01 domestic listed companies must have a majority of independent directors. The Company does not have a similar requirement under Brazilian practice and does not have a majority of independent directors serving on its board of directors, even though the majority of the members are non-management directors.

Separate meetings of non-management directors: Under NYSE Rule 303A.03, the non-management directors of each domestic listed company must meet at regularly scheduled executive sessions without management. Gerdau does not have a similar requirement under Brazilian practice, but non-management directors meet separately once a year to assess management performance.

Nominating/corporate governance committee: Under NYSE Rule 303A.04, a domestic listed company must have a nominating/corporate governance committee composed entirely of independent directors. While the Company is not required to have such a committee under Brazilian law, it has a Corporate Governance Committee that is composed by a majority of independent directors. The purpose of this Committee is to provide its views to the board in respect of the best practices in Corporate Governance.

Compensation Committee: Under NYSE Rule 303A.05, a domestic listed company must have a compensation committee composed entirely of independent directors. Gerdau is not required to have such a committee under Brazilian practice. It has established a Remuneration and Succession Committee to advise the full Board on employee and executive compensation and recruitment, incentive-compensation plans and related matters, but such committee does not have a separate charter and is composed by a majority of independent directors. Its full Board of Directors otherwise is directly responsible for employee and executive compensation and recruitment, incentive-compensation and related matters.

Audit Committee: Under NYSE Rule 303A.06 and the requirements of Rule 10A-3 of the Securities and Exchange Commission, domestic listed companies are required to have an audit committee consisting entirely of independent directors that otherwise complies with Rule 10A-3. In addition, the audit committee must have a written charter that addresses the matters outlined in NYSE Rule 303.A.06(c), has an internal audit function and otherwise fulfills the requirements of the NYSE and Rule 10A-3. There is no requirement for an audit committee under Brazilian law and there are features of Brazilian law that require adaptation of the independent audit committee rule to local practice, as permitted by NYSE Rule 303A.06 and Rule 10A-3. Gerdau has a board of auditors (conselho fiscal) that currently performs certain of the functions prescribed for the audit committee, although the scope of its duties is not entirely compatible with the requirements of U.S. law and the NYSE rules. The Company has adapted its corporate governance practices and the functions of the board of auditors (with certain limitations due to Brazilian corporate law that qualify for an exemption as authorized by the SEC) to assure compliance with the requirements of the NYSE Rule and Rule 10A-3. See Item 6C.- Board Practices-Board of Auditors and Item 16D.- Exemption from the Listing Standards for Audit Committees.

Equity Compensation Plans: Under NYSE Rule 303A.08, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule. The General Shareholders meeting held on April 30, 2003 approved the establishment by the Board of a stock option plan for executives. Any material changes to such plan, or a new or different plan if established, would require the favorable vote of holders of the common

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shares of the Company. Holders of preferred shares, including holders of Gerdau s ADSs, would not have the opportunity to vote on such a plan or any revisions thereto.

Corporate governance guidelines: Under NYSE Rule 303A.09, domestic listed companies must adopt and disclose their corporate governance guidelines. Gerdau does not have a similar requirement under Brazilian law, although it does establish operating principles for its executive management and it observes the requirements of Instruction 358 of the Brazilian Securities Commission (CVM) concerning trading in its shares. In addition, it has adhered to the Level I listing standards of the BOVESPA.

Code of Business Conduct and Ethics: Under NYSE Rule 303A.10, domestic listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. Gerdau has a similar requirement under Brazilian law and it has adopted a code of ethics that applies to its directors, officers and employees. For more information regarding the Code of Ethics please see item 16B. Code of Ethics.

Further information concerning Gerdau s corporate governance practices and applicable Brazilian law is available on the Company s website, in its submissions to the U.S. Securities and Exchange Commission. The Company has also voluntarily adhered to the Level I listing standards of the Sao Paulo Stock Exchange (BOVESPA) on which its shares are traded, which impose heightened standards of disclosure, transparency and corporate governance on Gerdau.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable as none of our mines are located in the United States and, therefore, not subject to the Federal Mine Safety and Health Act of 1977 or the Mine Safety and Health Administration.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has responded to Item 18 in lieu of responding to this item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements

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Report of independent registered public accounting firm	F-1
Consolidated balance sheets on December 31, 2014 and 2013	F-2
Consolidated statements of income for the years ended December 31, 2014, 2013 and 2012	F-4
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(b) List of Exhibits

1.01	Bylaws of Gerdau S.A.*******
2.(a)(1)	Corporate Governance Level 1 BOVESPA**
2.(a)(2)	Deposit Agreement dated July 1st, 2013, among the Company, the JPMORGAN CHASE BANK, N.A., as Depositary and all holders from time to time of American Depositary Receipts issued thereunder. *
2(b)(1)	The Company agrees to furnish to the Commission upon its request any instrument relating to long-term debt issued by the Company or any subsidiary where the total amount of securities authorized under that instrument does not exceed 10% of the Company s consolidated assets.
4.01	Gerdau SA Equity Incentive Plan, Equity Ownership Plan and Long-Term Incentive Plan (for Gerdau Ameristeel)***
4.02	Gerdau Special Steel North America Equity Incentive Plan****
11.01	Code of Ethics*****
12.01	Certification of the Chief Executive Officer under Item 15
12.02	Certification of the Chief Financial Officer under Item 15
13.01	Certification pursuant to 18 U.S.C. Section 1350
13.02	Certification pursuant to 18 U.S.C. Section 1350
23.01	Consent of PricewaterhouseCoopers Auditores Independentes

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* Incorporated by reference to the Company s Registration Statement on Form F-6 (File No. 333-189475), filed with the Securities and Exchange Commission on June 20, 2013.

**Incorporated by reference to Exhibit 2(a)(1) to the Company s Annual Report on Form 20-F (File No. 001-14878), filed with the Securities and Exchange Commission on April 23, 2012

*** Incorporated by reference to the Company s Registration Statement on Form S-8 (File No. 333-171217) filed with the Securities and Exchange Commission on December 16, 2010.

**** Incorporated by reference to the Company s Registration Statement on Form S-8 (File No. 333-179182) filed with the Securities and Exchange Commission on January 26, 2012.

***** Incorporated by reference to Exhibit 11.01 to the Company s Annual Report on Form 20-F (File No. 001-14878), filed with the Securities and Exchange Commission on April 23, 2012.

****** Incorporated by reference to Exhibit 11.01 to the Company s Annual Report on Form 20-F (File No. 001-14878), filed with the Securities and Exchange Commission on April 23, 2012.

******* Incorporated by reference to Exhibit 1.01 to the Company s Annual Report on Form 20-F (File No. 001-14878), filed with the Securities and Exchange Commission on March 24, 2014.

This certification will not be deemed filed for purposes of Section 18 of the Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

	GERDAU S.A.	
	By:	/s/ André Bier Gerdau Johannpeter
	Name:	André Bier Johannpeter
	Title:	Chief Executive Officer
	By:	/s/ André Pires de Oliveira Dias
	Name:	André Pires de Oliveira Dias
Dated: March 30, 2015	Title:	Chief Financial Officer

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GERDAU S.A.

Consolidated financial statements

as of December 31, 2014 and 2013

and for each of the three years in the period

ended December 31, 2014

prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board IASB

and Reports of Independent Registered Public Accounting Firms

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Gerdau S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of Gerdau S.A. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Controls over Financial Reporting appearing under Item 15 of the Company s Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A

company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers Auditores Independentes

Rio de Janeiro, Brazil

March 30, 2015

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GERDAU S.A.

CONSOLIDATED BALANCE SHEETS

as of December 31, 2014 and 2013

In thousands of Brazilian reais (R$)

	Note	2014	2013
CURRENT ASSETS			
Cash and cash equivalents	4	3,049,971	2,099,224
Short-term investments Held for Trading	4	2,798,834	2,123,168
Trade accounts receivable - net	5	4,438,676	4,078,806
Inventories	6	8,866,888	8,499,691
Tax credits	7	686,958	716,806
Income and social contribution taxes recoverable		468,309	367,963
Unrealized gains on financial instruments	15	41,751	319
Other current assets		331,352	291,245
		20,682,739	18,177,222
NON-CURRENT ASSETS			
Tax credits	7	78,412	103,469
Deferred income taxes	8	2,567,189	2,056,445
Related parties	18	80,920	87,159
Judicial deposits	17	1,430,865	1,155,407
Other non-current assets		375,732	220,085
Prepaid pension cost	19	196,799	555,184
Investments in associates and jointly-controlled entities	9	1,394,383	1,590,031
Goodwill	11	12,556,404	11,353,045
Other Intangibles	12	1,547,098	1,497,919
Property, plant and equipment, net	10	22,131,789	21,419,074
		42,359,591	40,037,818
TOTAL ASSETS		63,042,330	58,215,040

The accompanying notes are an integral part of these Consolidated Financial Statements.

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GERDAU S.A.

CONSOLIDATED BALANCE SHEETS

as of December 31, 2014 and 2013

In thousands of Brazilian reais (R$)

	Note	2014	2013
CURRENT LIABILITIES			
Trade accounts payable		3,236,356	3,271,419
Short-term debt	13	2,037,869	1,810,783
Debentures	14		27,584
Taxes payable	16	405,490	473,773
Income and social contribution taxes payable		388,920	177,434
Payroll and related liabilities		668,699	655,962
Dividends payable	21	119,318	119,455
Employee benefits	19	34,218	50,036
Environmental liabilities	20	23,025	15,149
Unrealized losses on financial instruments	15		274
Other current liabilities		858,901	634,761
		7,772,796	7,236,630
NON-CURRENT LIABILITIES			
Long-term debt	13	17,148,580	14,481,497
Debentures	14	335,036	386,911
Related parties	18		43
Deferred income taxes	8	944,546	1,187,252
Unrealized losses on financial instruments	15	8,999	3,009
Provision for tax, civil and labor liabilities	17	1,576,355	1,294,598
Environmental liabilities	20	93,396	90,514
Employee benefits	19	1,272,631	942,319
Other non-current liabilities		635,457	571,510
		22,015,000	18,957,653
EQUITY	21		
Capital		19,249,181	19,249,181
Treasury stocks		(233,142)	(238,971)
Capital reserves		11,597	11,597
Retained earnings		11,366,957	10,472,752
Operations with non-controlling interests		(1,732,962)	(1,732,962)
Other reserves		3,539,188	2,577,482
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		32,200,819	30,339,079
NON-CONTROLLING INTERESTS		1,053,715	1,681,678
EQUITY		33,254,534	32,020,757
TOTAL LIABILITIES AND EQUITY		63,042,330	58,215,040

The accompanying notes are an integral part of these Consolidated Financial Statements.

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GERDAU S.A.

CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 2014, 2013 and 2012

In thousands of Brazilian reais (R$)

	Note	2014	2013	2012
NET SALES	23	42,546,339	39,863,037	37,981,668
Cost of sales	28	(37,406,328)	(34,728,460)	(33,234,102)
GROSS PROFIT		5,140,011	5,134,577	4,747,566
Selling expenses	28	(691,021)	(658,862)	(587,369)
General and administrative expenses	28	(2,036,926)	(1,953,014)	(1,884,306)
Other operating income	28	238,435	318,256	244,414
Other operating expenses	28	(150,542)	(140,535)	(180,453)
Impairment of assets	27	(339,374)		
Gains in Joint ventures operations	3.2	636,528		
Equity in earnings of unconsolidated companies	9	101,875	54,001	8,353
INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES		2,898,986	2,754,423	2,348,205
Financial income	29	276,249	292,910	316,611
Financial expenses	29	(1,397,375)	(1,053,385)	(952,679)
Exchange variations, net	29	(476,367)	(544,156)	(134,128)
Gain and losses on financial instruments, net	29	36,491	2,854	(18,547)
INCOME BEFORE TAXES		1,337,984	1,452,646	1,559,462
Current	8	(571,926)	(318,422)	(316,271)
Deferred	8	722,315	559,478	253,049
Income and social contribution taxes	8	150,389	241,056	(63,222)
NET INCOME		1,488,373	1,693,702	1,496,240
ATTRIBUTABLE TO:				
Owners of the parent		1,402,873	1,583,731	1,425,633
Non-controlling interests		85,500	109,971	70,607
		1,488,373	1,693,702	1,496,240
Basic earnings per share - preferred and common - (R$)	22	0.82	0.93	0.84
Diluted earnings per share - preferred and common - (R$)	22	0.82	0.93	0.84

The accompanying notes are an integral part of these Consolidated Financial Statements.

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GERDAU S.A.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, 2014, 2013 and 2012

In thousands of Brazilian reais (R$)

	2014	2013	2012
Net income for the year	**1,488,373**	**1,693,702**	**1,496,240**
Items that may be reclassified subsequently to profit or loss			
Other comprehensive income from associates and jointly-controlled entities	81,015	168,848	106,147
Cumulative translation adjustment	1,839,739	2,458,233	1,764,698
Unrealized Losses on net investment hedge	(948,991)	(848,238)	(369,737)
Cash flow hedges			
Unrealized Gains (Losses)	53,999	2,051	(2,129)
Reciclying to income	(59,988)	3,312	541
Unrealized Losses on available for sale securities			(76)
	965,774	1,784,206	1,499,444
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on defined benefit pension plan	(78,678)	205,325	(184,407)
	(78,678)	**205,325**	**(184,407)**
Other comprehensive income, net of tax	**887,096**	**1,989,531**	**1,315,037**
Total comprehensive income for the year, net of tax	**2,375,469**	**3,683,233**	**2,811,277**
Total comprehensive income attributable to:			
Owners of the parent	2,248,178	3,519,435	2,686,916
Non-controlling interests	127,291	163,798	124,361
	2,375,469	**3,683,233**	**2,811,277**

The items in the statement of comprehensive income are presented net of taxes, where applicable. The tax effects of these items are presented in note 8.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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GERDAU S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2014, 2013 and 2012

in thousands of Brazilian reais (R$)

	Attributed to parent company s interest											
				Retained earnings							Other Reserves	
	Capital	**Treasury stocks**	**Capital Reserve**	**Legal reserve**	**Tax Incentives Reserve**	**Investments and working capital reserve**	**Pension Plan**	**Retained earnings**	**Operations with non-controlling interests**	**Gains and losses on available for sale securities**	**Gains and losses on net investment hedge**	**Gains and losses on derivatives**
Balance as of January 1, 2012 (Note 21)	19,249,181	(237,199)	11,597	407,615	428,465	7,799,159	(287,802)		(1,726,674)	1,696	(317,066)	
2012 Changes in Equity												
Net income								1,425,633				
Other comprehensive income (loss) recognized in the year							(179,575)			(76)	(364,727)	(1,702)
Total comprehensive income (loss) recognized in the year							(179,575)	1,425,633		(76)	(364,727)	(1,702)
Shareholders transactions:												
Treasury stocks		(63,613)										
Stock option expenses recognized in the year												
Stock option exercised during the year		10,572				(5,303)						
Effects of interest changes in subsidiaries									(1,953)			
Destination of net income proposed to the shareholders				71,282	62,426	883,732		(1,017,440)				
Dividends/interest on capital								(408,193)				
Supplementary dividend						211						
Balance as of December 31, 2012 (Note 21)	19,249,181	(290,240)	11,597	478,897	490,891	8,677,799	(467,377)		(1,728,627)	1,620	(681,793)	(1,702)
2013 Changes in Equity												
Net income								1,583,731				

Other comprehensive income (loss) recognized in the year							201,347				(843,859)	4,983
Total comprehensive income (loss) recognized in the year							201,347	1,583,731			(843,859)	4,983
Stock option expenses recognized in the year												
Stock option exercised during the year		51,269				(15,869)						
Effects of interest changes in subsidiaries									(4,335)			
Destination of net income proposed to the shareholders				79,187	69,514	958,363		(1,107,064)				
Dividends/interest on capital								(476,667)				
Balance as of December 31, 2013 (Note 21)	19,249,181	(238,971)	11,597	558,084	560,405	9,620,293	(266,030)		(1,732,962)	1,620	(1,525,652)	3,281
2014 Changes in Equity												
Net income								1,402,873				
Other comprehensive income (loss) recognized in the year							(81,817)				(947,201)	(5,824)
Total comprehensive income (loss) recognized in the year							(81,817)	1,402,873			(947,201)	(5,824)
Stock option expenses recognized in the year												
Stock option exercised during the year		5,829				(698)						
Effects of interest changes in subsidiaries												
Destination of net income proposed to the shareholders				70,144	51,126	855,462		(976,732)				
Dividends/interest on capital								(426,141)				
Supplementary dividend						(12)						
Balance as of December 31, 2014 (Note 21)	19,249,181	(233,142)	11,597	628,228	611,531	10,475,045	(347,847)		(1,732,962)	1,620	(2,472,853)	(2,543)

The accompanying notes are an integral part of these Consolidated Financial Statements.

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GERDAU S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2014, 2013 and 2012

In thousands of Brazilian reais (R$)

	Note	2014	2013	2012
Cash flows from operating activities				
Net income for the year		1,488,373	1,693,702	1,496,240
Adjustments to reconcile net income for the year to net cash provided by operating activities				
Depreciation and amortization	28	2,227,396	2,029,507	1,827,499
Impairment of Assets	27	339,374		
Equity in earnings of unconsolidated companies	9	(101,875)	(54,001)	(8,353)
Exchange variation, net	29	476,367	544,156	134,128
(Gains) Losses on financial instruments, net	29	(36,491)	(2,854)	18,547
Post-employment benefits		200,699	95,514	38,665
Stock based remuneration		39,614	38,223	36,699
Income tax	8	(150,389)	(241,056)	63,222
(Gains) Losses on disposal of property, plant and equipment and investments		(48,639)	(133,593)	7,890
Gains in Joint ventures operations	3.2	(636,528)		
Allowance for doubtful accounts	5	49,890	47,345	50,084
Provision for tax, labor and civil claims	17	281,876	205,167	171,264
Interest income on investments	29	(144,723)	(135,040)	(155,638)
Interest expense on loans	29	1,178,034	901,273	811,416
Interest on loans with related parties	18	(2,743)	(1,573)	(1,594)
Provision for net realisable value adjustment in inventory	6	63,440	56,752	141,121
Release of allowance for inventory against cost upon sale of the inventory	6	(69,502)	(61,453)	(86,710)
		5,154,173	4,982,069	4,544,480
Changes in assets and liabilities				
(Increase) Decrease in trade accounts receivable		(36,468)	(23,790)	168,134
(Increase) Decrease in inventories		(173,191)	1,018,398	(264,366)
Decrease in trade accounts payable		(251,911)	(128,942)	(522,870)
(Increase) Decrease in other receivables		(701,550)	120,645	(664,819)
Increase (Decrease) in other payables		280,187	162,863	(314,906)
Dividends from jointly-controlled entities		95,600	63,073	47,667
Purchases of trading securities		(3,028,974)	(3,360,144)	(2,060,511)
Proceeds from maturities and sales of trading securities		2,544,895	2,481,935	4,444,636
Cash provided by operating activities		3,882,761	5,316,107	5,377,445
Interest paid on loans and financing		(859,821)	(810,362)	(698,070)
Income and social contribution taxes paid		(452,079)	(407,333)	(335,328)
Net cash provided by operating activities		2,570,861	4,098,412	4,344,047
Cash flows from investing activities				
Additions to property, plant and equipment	10	(2,266,702)	(2,598,265)	(3,127,256)
Proceeds from sales of property, plant and equipment, investments and other intangibles		1,067,938	237,203	35,334

Additions to other intangibles	12	(141,956)	(158,395)	(156,805)
Advance for capital increase in jointly-controlled entity	9		(77,103)	(206,214)
Cash and cash equivalents consolidated in business combinations				16,916
Payment for business acquisitions, net of cash of acquired entities	3.5		(55,622)	
Increase in controlling interest in associated companies	3.5		(51,383)	
Net cash used in investing activities		(1,340,720)	(2,703,565)	(3,438,025)
Cash flows from financing activities				
(Reduction) Increase of capital by non-controlling interests		(550,000)	383,788	(116,685)
Purchase of treasury shares				(44,932)
Proceeds from exercise of shares		5,483	35,465	5,269
Dividends and interest on capital paid		(455,139)	(426,988)	(523,076)
Proceeds from loans and financing		2,771,048	5,011,654	1,767,350
Repayment of loans and financing		(2,173,555)	(5,223,100)	(2,105,228)
Intercompany loans, net		8,939	46,933	(18,992)
Increase in controlling interest in subsidiaries	3.5	(130,199)	(33,090)	
Put-Options on non-controlling interest			(599,195)	
Net cash used in financing activities		(523,423)	(804,533)	(1,036,294)
Exchange variation on cash and cash equivalents		244,029	71,675	90,908
Increase (Decrease) in cash and cash equivalents		950,747	661,989	(39,364)
Cash and cash equivalents at beginning of year		2,099,224	1,437,235	1,476,599
Cash and cash equivalents at end of year		3,049,971	2,099,224	1,437,235

The accompanying notes are an integral part of these Consolidated Financial Statements.

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NOTE 1 - GENERAL INFORMATION

Gerdau S.A. is a publicly traded corporation *(sociedade anônima)* with its corporate domicile in the city of Rio de Janeiro, Brazil. Gerdau S.A and subsidiaries (collectively referred to as the Company) is a leading producer of long steel in the Americas and one of the largest suppliers of special steel in the world. In Brazil, also produces flat steel and iron ore, activities which expanded the product mix and made its operations even more competitive. Gerdau has industrial operations in 14 countries in the Americas, Europe and Asia, which together represent installed capacity of over 25 million tons of steel per year. It is the largest recycler in Latin America and around the world it transforms each year millions of tons of scrap into steel, reinforcing its commitment to sustainable development of the regions where it operates. With more than 120 thousand shareholders, Gerdau is listed on the São Paulo, New York and Madrid stock exchanges.

The Consolidated Financial Statements of Gerdau S.A and subsidiaries were approved by the Board of Directors on March 30, 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

2.1 - Basis of Presentation

The Company s Consolidated Financial Statements have been prepared in accordance and are in compliance with the International Financial Reporting Standards (IFRS) issued by *International Accounting Standards Board* (IASB).

The preparation of the Consolidated Financial Statements in accordance with IFRS requires Management to make accounting estimates. The areas that involve judgment or use of estimates relevant to the Consolidated Financial Statements are stated in Note 2.17. The Consolidated Financial Statements have been prepared using historical cost as its basis, except for the valuation of certain financial instruments, which are measured at fair value.

The Company adopted all applicable standards and revisions of standards and interpretations issued by the IASB or the IFRS Interpretations Committee that are effective for December 31, 2014.

a) Investments in Subsidiaries

The Company s consolidated financial statements include the financial statements of Gerdau S.A. and all its subsidiaries. The Company controls an entity when it is exposed or has the right to variable returns arising from their involvement with the entity and has the ability to affect those returns due to the power exercised over the entity. Subsidiaries are consolidated until the date on which control exists.

Third parties interests in equity and net income of subsidiaries are reported separately in the consolidated balance sheet and in the consolidated statement of income, respectively, under the account Non-controlling interests .

For business combinations, the assets, liabilities, and contingent liabilities of a subsidiary are reported at their respective fair value on the date of acquisition. Any excess of the acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. When the acquisition cost is less than the fair value of the net assets identified, the difference is recorded as a gain in the statement of income for the year in which the acquisition took place. The non-controlling interests are presented based on the proportion of the fair value of the identified assets and liabilities acquired. Intercompany transactions and balances are eliminated in the consolidation process. Gains or losses resulting from transactions among consolidated entities of the Company are also eliminated.

b) Investments in Joint ventures and Associate Companies

Joint ventures are those in which the control is held jointly by the Company and one or more partners. An associate company is one in which the Company exercises significant influence, but over which it does not have control. Investments in joint ventures and associate companies are recorded under the equity method.

c) Equity Method

According to this method, investments are recognized in the consolidated balance sheet at acquisition cost and are adjusted subsequently based on the Company s share in the earnings and in other changes in the net assets of the investees. The balances of the investments can also be reduced due to impairment losses. Furthermore, dividends received from these companies are recorded as reductions in the value of the investments.

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2.2 Foreign Currency Translation

a) Functional and Reporting Currency

The functional currency of an entity is the currency of the primary economic environment where it operates. The Consolidated Financial Statements are presented in Reais (R$), which is the functional and reporting currency of the Company.

b) Transactions and Balances

For purposes of the Consolidated Financial Statements, the balances of each subsidiary of the Company are converted into Brazilian reais, which is the functional currency of the Company and the reporting currency of its Consolidated Financial Statements.

c) Group Companies

The results of operations and financial position of all subsidiaries included in the consolidated financial statements, along with equity investments, which have functional currencies different from the Company s reporting currency are translated into the reporting currency as follows:

i) Asset and liability balances are translated at the exchange rate in effect at the balance sheet date;

ii) Income and expenses are translated using the average monthly exchange rates for the year; and

iii) Translation gains and losses resulting from the above methodology are recognized in Equity, in the Statement of Comprehensive Income, in the account named Other reserves - Cumulative translation adjustment .

iv) The amounts presented in the cash flow are derived from the changes in assets, liabilities and income and expenses translated, as detailed above.

d) Hyperinflation in Venezuela

Venezuela is considered a hyperinflationary economy and, for this reason, the financial statements of the Company s subsidiary located in this country have been adjusted so that the amounts are stated in the measurement currency unit as of the end of the year, which considers the effects measured by the IPC - *Índice de Preços ao Consumidor* (Consumer Price Index) of Venezuela. The exchange rate used to translate the Venezuela subsidiary financial statements from local currency (Bolívar Forte) to Real considers the local exchange rate known as SICAD 1, which is used in conversions from Bolívar Forte to American Dollar as a reference to local currency translation into Real. This rate is equivalent to 4.5177 Bolívar Forte to each 1 Real as of December 31, 2014.

2.3 - Financial Assets

The Company measures its derivative financial instruments based on their fair value on the balance sheet date, being the most relevant indications of fair value the quotations obtained from market participants. The fair value recognized in its Consolidated Financial Statements may not necessarily represent the amount of cash that the Company would receive or pay, as applicable, if the Company would have settled the transactions on the balance sheet date.

The Company classifies its financial assets, upon initial recognition, in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale (if applicable). The classification depends on the objective for which the financial assets where acquired, as detailed in Note 15.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and include Bank Deposit Certificates and marketable securities. Financial assets at fair value through profit or loss are initially recognized at fair value and the transaction costs are expensed immediately in the income statement.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company s loans and receivables comprise Accounts receivable and other receivables and Cash and cash equivalents. They

are presented as current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

c) Derivative financial instruments and hedging activities

Initially, derivatives are recognized at fair value on the date a derivative contract is entered into and are, subsequently, remeasured to their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated or not as a hedging instrument and for which hedge accounting has been adopted. If this is the case, the method also depends on the nature of the item being hedged as well as the effectiveness of the hedging relationship. As described in note 15, the Company applies hedge accounting.

d) Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognized immediately in the income statement under Gains and losses on financial instruments, net .

e) Cash and Cash Equivalents

Cash and cash equivalents include cash, bank accounts and highly liquid investments with original maturities of 90 days or less with insignificant risk of changes in fair value and are stated at cost plus accrued interest, when applicable.

f) Short and Long-term Investments

Held for trading securities are stated at fair value and recognized through profit and loss (held for trading), since the purpose of the investment is to earn short-term gains. Interest, monetary adjustments, and exchange variation, when applicable, as well as changes in fair value are recognized in the income statement when incurred.

g) Trade Accounts Receivable

Trade accounts receivable are stated at amortized cost and accounts receivable from foreign customers are translated based on the exchange rates in effect at the balance sheet date. The allowance for doubtful accounts is calculated based on a risk assessment, which considers historical losses, the individual situation of each customer and the situation of the economic group to which they belong, available collateral and guarantees and the opinion of legal counsel. The allowance is considered sufficient to cover any losses incurred on uncollectible receivables.

Information on the breakdown of current and past-due trade accounts receivable and the related allowance for doubtful accounts is provided in note 5.

h) Impairment of Financial Assets

Financial assets are assessed at each balance sheet date for evidence of impairment. They are considered impaired when there is evidence that one or more events have occurred after the initial recognition of the financial asset and such event or events had a negative impact on the estimated future cash flows of the investment. The criteria used to determine whether there is evidence of an impairment loss include, among other factors: (i) significant financial difficulty of the issuer or obligor, and (ii) domestic or local economic conditions that correlate with defaults on the assets in portfolio.

2.4 Inventories

Inventories are measured at the lower of historical cost of acquisition or production and net realizable value. The acquisition and production costs include transportation, storage and non-recoverable taxes.

Net realizable value is the estimated sale price in the ordinary course of business less the estimated costs of completion and selling expenses directly related. Information regarding the allowance for adjustments to net realizable value is presented in note 6.

2.5 - Property, Plant and Equipment

Property, plant and equipment are stated at historical cost, monetarily adjusted when applicable in accordance with IAS 29, less depreciation, except for land, which is not depreciated, and less impairment losses, when applicable. The Company recognizes borrowing costs as part of the acquisition cost of the property, plant and equipment under construction based on the following capitalization criteria: (a) the capitalization period begins when the property, plant and equipment item is under construction in process and the capitalization of borrowing costs ceases when the asset is available for use; (b) borrowing costs are capitalized

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considering the weighted average rate of loans existing on the capitalization date or a specific rate, in the case of loans for the acquisition of property, plant and equipment; (c) borrowing costs capitalized do not exceed the interest expenses during the capitalization period; and (d) capitalized borrowing costs are depreciated considering the same criteria and useful life determined for the property, plant and equipment item to which it was capitalized.

Depreciation is calculated under the straight-line method at rates that take into consideration the estimated useful life of the asset, its level of utilization and the estimated residual value of the asset at the end of its useful life. The estimated residual value and useful life of the assets are reviewed and adjusted, if necessary, at each year-end.

Subsequent costs are added to the carrying amount of property, plant and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured. The carrying amount of replaced items is written-off. Other repairs and maintenance are recognized directly in income when incurred.

Mining exploration rights are classified as Land and Buildings in the Property, plant and equipment account. Exploration expenditures are recognized as expenses until the feasibility of mining activity is established and thereafter subsequent costs are capitalized. Costs for the development of new iron ore reserves or to expand the capacity of operating mines are capitalized and amortized based on the amount of iron ore extracted. Stripping costs (costs associated with removal of waste and other residual materials) incurred during the development phase of a mine, before production phase, are registered as part of the depreciable cost of asset. Subsequently, these costs are depreciated over the useful life of the mine. Spending on waste removal, after the start of production of the mine, are treated as production costs. Depletion of mines is calculated based on the amount of ore extracted.

The net book value of property, plant and equipment is impaired when it exceeds its recoverable amount.

2.6 Goodwill

Goodwill represents the excess at the date of acquisition of the acquisition cost over the fair value of net assets acquired, liabilities assumed, contingent liabilities and the fair value of non-controlling interest of a subsidiary, joint venture or associate.

Goodwill is recorded as an asset and recorded under Investments in associates and joint ventures or Goodwill . Goodwill is not amortized and is subject to impairment tests annually or whenever there are indications of potential impairment. Any impairment loss is recorded as an expense in the income statement and cannot be reversed. Goodwill is allocated to the operating segments, which represents the lowest level at which goodwill is monitored by management.

When a subsidiary, joint venture or associate is sold, goodwill is included in the determination of gains and losses on disposal.

2.7 Other Intangible Assets

Other intangible assets are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. Intangible assets consist mainly of assets which represent the capacity to generate economic benefits from companies acquired based on relationships with customers and suppliers, software and others. Intangible assets with definite useful lives are amortized taking into consideration their actual use or a method that reflects their consumption of economic benefits. The net book value of intangible assets is impaired if it exceeds the estimated recoverable amount (note 2.8).

Intangible assets acquired in a business combination are recorded at fair value, less accumulated amortization and impairment losses, when applicable. Intangible assets that do not have indefinite lives are amortized over their useful lives using an amortization method which reflects the economic benefit of the intangible asset and registered on cost of sales. Customer and supplier relationship intangible assets are amortized based on an accelerated method that considers the expected future economic benefit provided by customers and suppliers acquired over time.

The Company reviews the amortization period and amortization method for intangible assets with definite useful lives at the end of each year.

2.8 Provision for Impairment of Assets and Reversal of Impairment

At each balance sheet date, the Company performs an assessment to determine whether there is evidence that the carrying amount of long-lived assets might be impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company. The recoverable amount of an asset is determined as the higher of: (a) its fair value less estimated costs to sell and (b) its value in use. The value in use is measured based on discounted cash flows (before taxes) derived from the continuous use of the asset until the end of its estimated useful life. Regardless of whether or not there is any indication that the carrying amount of the asset may be impaired,

the balances of goodwill arising from business combinations and intangible assets with indefinite useful lives are tested for impairment at least once a year in December.

When the carrying amount of the asset exceeds its recoverable amount, the Company recognizes a reduction in the book value of the asset (Impairment). The reduction to the recoverable amount of the asset is recorded as an expense. Except for an impairment of goodwill, a reversal of a previously recorded impairment loss is required. Reversal in these circumstances is limited to the amount of the depreciated balance of the asset at the time of the reversal, determined as if the impairment had not been recorded, as discussed in note 27.2.

The Company does not believe there is a reasonable likelihood that may occur a material change in the estimates or assumptions used to calculate long-lived asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, the Company may be exposed to losses that could be material.

2.9 Financial Liabilities and Equity Instruments

a) Classification as Debt or Equity

Debt or equity instruments are classified based on the substance of the contractual terms of the instruments.

b) Short and Long-Term Debt

They are stated net of transaction costs, and are subsequently measured at the amortized cost using the effective interest method.

c) Equity Instruments

An equity instrument is based on a contract that evidences a residual interest in the assets of an entity after deducting its liabilities.

d) Derivative Instruments and hedging

The Company enters into derivative financial instruments mainly to manage its exposure to fluctuation in interest rates and exchange rates. The Company measures its derivative financial instruments, based on quotations obtained from market participants, at fair value at the balance sheet date.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge or a net investment hedge are recorded in the statement of comprehensive income.

The Company assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised, the cumulative unrealized gain or loss, which had been recognized in the statement of comprehensive income, is reclassified immediately to the statement of income. Additionally, changes in the fair value of financial instruments not designated for hedge accounting are recognized in the Gain and losses on financial instruments, net, account in the income statement.

2.10 Current and Deferred Income and Social Contribution Taxes

Current income and social contribution tax expense is calculated in conformity with current tax laws in effect at the balance sheet date in the countries where the Company s subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in relation to tax matters which are subject to interpretation and recognizes a provision when there is an expectation of payment of income tax and social contribution in accordance with the tax bases. The expense for income tax and social contribution taxes comprises current and deferred taxes. Current tax and deferred tax is recognized in income unless they are recognized for a business combination, or for items directly recognized in equity through other comprehensive income.

Current tax is the estimated tax payable or receivable on the taxable income or loss for the year, at the tax rates effective at the balance sheet date. Deferred tax is recognized with respect to temporary differences between the carrying amount of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes and corresponding to amounts recognized in the Consolidated Financial Statements. However, deferred income and social contribution taxes are not recognized arising from the initial recognition of assets and liabilities in a transaction other than a business combination and that do not affect the tax basis. Income and social contribution taxes are determined based on tax rates (and laws) effective at the balance sheet date and applicable when the respective income and social contribution taxes is paid. Deferred income and social contribution tax assets are recognized only to the

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extent that it is probable that there will be taxable income for which the temporary differences can be used and tax losses can be compensated.

Deferred tax assets recorded for tax loss carryforwards are supported by projections of taxable income based on technical feasibility studies submitted annually to the Board of Directors of the Company and its subsidiaries, when applicable. These studies consider historical profitability of the Company and its subsidiaries, expectations of continuous profitability and estimates of the recovery of deferred tax assets over future years. Other deferred tax assets arising from temporary differences, mainly tax contingencies, and provision for losses, are recognized according to their estimate of realization. Deferred income tax and social contribution assets are reviewed at each reporting date and will be reduced to the extent that their realization is not more likely than not based on future taxable income.

The Company only recognizes a provision on tax issues if a past event leads to a present obligation. The Company determines whether a present obligation exists at the reporting date by taking into consideration all available evidence, including, for example, the opinion of legal advisors. The Company also considers whether it is probable that there will be an outflow of assets and a reliable estimate can be made of the amount of the obligation.

2.11 Employee Benefits

The Company has several employee benefit plans including pension and retirement plans, health care benefits, profit sharing, bonus, and share-based payment, as well as other retirement and termination benefits. The main benefit plans granted to the Company s employees are described at notes 19 and 24.

The actuarial obligations related to the pension and retirement benefits and the actuarial obligations related to the health care plans are recorded based on actuarial calculations performed every year by independent actuaries, using the projected unit credit method, net of the plan assets, when applicable, and the related costs are recognized over the employees service period. Any employee benefit plan surpluses are also recognized up to the probable amount of reduction in future contributions by the Company.

Actuarial remeasurements arising from adjustments and changes in actuarial assumptions of the pension and retirement benefit plans and actuarial obligations related to the health care plan are recognized directly in the Statement of Comprehensive Income as described in Note 19. The Company believes that the recognition of actuarial gains and losses in comprehensive income provides a better presentation in the consolidated financial statements considered as a whole.

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions, return on plan assets, future increases in health care costs, and rate of future compensation increases. In addition, actuarial computation other factors whose measurement involves judgment are used such as withdrawal, turnover, and mortality rates. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

2.12 - Other Current and Non-current Assets and Liabilities

Other current and non-current assets and liabilities are recorded at their realizable amounts (assets) and at their known or estimated amounts plus accrued charges and monetary adjustments (liabilities), when applicable.

2.13 Related-Party Transactions

Loan agreements between the entities in Brazil and abroad are adjusted by contractual financial charges plus foreign exchange variation, when applicable. Sales and purchases of raw materials and products are made under terms and conditions contractually established between the parties.

2.14 Dividends and Interest on equity

Dividend payments are recognized as liabilities at the time dividends are approved by the shareholders of Gerdau S.A. The bylaws of Gerdau S.A. required dividends of not less than 30% of the annual net income; therefore, Gerdau S.A. records a liability at year-end for the minimum dividend amount that has not yet been paid during the year up to the limit of the mandatory minimum dividend described above.

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2.15 Revenue Recognition

Net sales are presented net of taxes and discounts. Taxes on sales are recognized when sales are invoiced and discounts on sales are estimated and recognized upon sale. Revenues from sales of products are recognized when the sales amount can be reliably measured, the Company no longer has control over the goods sold or any other responsibility attributable to its ownership, the costs incurred or that will be incurred related to the transaction can be reliably measured, it is more likely than not that the economic benefits will be received by the Company, and the risks and benefits of the products have been fully transferred to the buyer. The related costs of freight are included in cost of sales.

2.16 - Investments in Environmental Protection and Environmental liabilities

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Environmental costs that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation or cost reduction are expensed. Liabilities are recorded when environmental assessments and or remedial efforts are probable and the cost can be reasonably estimated based on discussions with the environmental authorities and other assumptions relevant to the nature and extent of the remediation that may be required. The ultimate cost to the Company is dependent upon factors beyond its control such as the scope and methodology of the remedial action requirements to be established by environmental and public health authorities, new laws or government regulations, rapidly changing technology and the outcome of any potential related litigation. Environmental liabilities are adjusted to present value when the aggregate amount of the obligation and the amount and timing of cash disbursements are established or can be reliably estimated.

The Company records provisions for environmental liabilities based on best estimates of potential clean-up and remediation costs for known environmental sites. The Company has a team of professionals to manage all phases of its environmental programs. These professionals develop estimates of liabilities at these sites based on projected and known remediation costs. This analysis requires the Company to make significant estimates and changes in facts and circumstances may result in material changes in environmental provisions due to the completion of the investigation and determination of the actual environmental impact.

2.17 - Use of Estimates and judgments

The preparation of the Consolidated Financial Statements requires estimates to record certain assets, liabilities and other transactions and judgment to apply accounting policies. To make these estimates, Management uses the best information available on the date of preparation of the Consolidated Financial Statements and the experience of past and/or current events, also considering assumptions related to future events. As such, the Consolidated Financial Statements include estimates and judgment with respect to the recoverable amount of long-lived assets (note 27), with respect to the need and the amount of provisions for tax, civil and labor liabilities (note 17), estimates and judgment in selecting interest rates, return on assets, mortality tables and expectations for salary increases in long-term postretirement benefits (note 19), and estimates when selecting the valuation model and inputs used in measuring share-based compensation (note 24). Actual results could differ from those estimates.

2.18 - Business Combinations

a) Step-acquisitions in which control is obtained

When a business combination is achieved in stages, the interest previously held by the Company in the acquired entity is remeasured at fair value at acquisition date (i.e. the date when the Company acquires the control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts related to the Company s interest in the acquired company before the acquisition date, and that were recognized in Other comprehensive income, are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

b) Acquisitions in which control is obtained initially

Acquisitions of businesses are accounted for under the acquisition method. The cost of the acquisition is measured at the fair values (at the date of the transaction) of the assets transferred, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control of the acquired business entity. The acquiree s identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders proportion of the net fair value of the assets, liabilities and contingent liabilities recognized. Expenses related to the acquisition are recognized in the income statement when incurred.

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c) Increases/decreases in non-controlling interests

Subsequent purchases, after the Company has obtained control, are treated as acquisitions of shares from non-controlling shareholders: the identifiable assets and liabilities of the entity are not subject to a further revaluation and the positive or negative difference between the cost of such subsequent acquisitions and the net value of the additional proportion of the company is accounted for within equity.

d) Loss of control of a subsidiary

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the Company derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date that control is lost. This fair value is reflected in the calculation of the gain or loss on disposal attributable to the parent, and becomes the initial carrying amount for subsequent accounting for the retained interest under IAS 28 or IAS 39.

2.19 Segment Information

The Gerdau Executive Committee, which is composed of the most senior officers of the Company, is responsible for managing the business.

The Company s segments are as follows: Brazil Operations (includes operations in Brazil, except Special Steels, and the operation of metallurgical coal and coke in Colombia), Iron Ore Operations, North America Operations (includes all operations in North America, except those of Mexico and Special Steels), Latin America Operations (includes all operations in Latin America, except Brazil and the operation of metallurgical coal and coke in Colombia) and Special Steel Operations (including special steel operations in Brazil, Spain, the United States and India).

2.20 Earnings per Share

In compliance with IAS 33, Earnings per Share, the tables presented in note 22 reconcile net income to the amounts used to calculate basic and diluted earnings per share. The Company has no instruments that were excluded from the calculation of diluted EPS because they were antidilutive.

2.21 Long-term incentive plans

The Company settles the stock options plans by delivering its own shares, which are held in treasury until the exercise of the options by the employees. Additionally, the Company has also granted the following long-term incentive plans: Stock Options, Restricted Shares, Share Appreciation Rights and Performance Shares, as presented in note 24.

2.22 - New IFRS and Interpretations of the IFRIC (International Financial Reporting Interpretations Committee)

The following IFRS standards had their optional or mandatory adoption beginning on January 1, 2014 and did not impact the Company s Financial Statements:

• Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities. Addresses issues related to the offsetting of financial assets and liabilities

• Revised IFRS 10, IFRS 12 and IFRS 27 - Investment Entities. Define an investment entity and introduce an exception to consolidation of subsidiaries by an investment entity.

• IFRIC 21 - Levies. Addresses aspects related to the recognition of a liability to pay a levy that is accounted for in accordance with IAS 37.

• Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets. Requires the disclosure of the discount rates of the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

• Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting. Has the objective to clarify when an entity is required to discontinue hedge accounting, in situations where the hedging instrument expires or is sold, terminated or exercised.

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• Amendments to IAS 27 - Equity Method in Separate Financial Statements. Has the objective to allow the entity to account for its investments in subsidiaries, joint ventures and associates using the equity method in its Separate financial statements.

IFRS Standards and Interpretations of standards not yet in force and did not have early adoption by the Company until December 31, 2014:

• IFRS 9 - Financial Instruments. Has the objective to replace the standard IAS 39 Financial Instruments: Recognition and Measurement, in three stages. This standard is the first part of stage 1 of the IAS 39 replacement and addresses the classification and measurement of financial assets. In October 2010, the IASB added to this standard the requirements for classification and measurement of financial liabilities. This standard and its subsequent change are effective for annual reporting periods beginning on or after January 1, 2015.

• Amendments to IFRS 9 and IFRS 7 - Mandatory Effective Date and Transition Disclosures. The amendment of IFRS 9 deals with the extension of the adoption date from January 1, 2013 to January 1, 2015. The amendment of IFRS 7 addresses issues relating to disclosure about the transition from IAS 39 to IFRS 9 and aspects related to the restatement of the comparative periods at the date of adoption of this statement.

• IFRS 14 Regulatory Deferral Accounts. Determine the recognition of regulatory assets and liabilities at the first adoption of the IFRS. This standard is effective for annual periods beginning on or after January 1, 2016.

• Amendments to IFRS 11 Joint Arrangements. The amendment of IFRS 11 seek to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business, as defined in IFRS 3. The revised standard is effective for years beginning on or after January 1, 2016.

• Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization. The amendment of IAS 16 and IAS 38 seek to clarify the depreciation and amortization methods, aligned with the concept of expected future economic benefits from the use of the asset over its economic useful life. These revised standards are effective for years beginning on or after January 1, 2016.

• IFRS 15 - Revenue from Contracts with Customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard is effective for years beginning on or after January 1, 2017.

• Amendments to IAS 16 and IAS 41- Agriculture: Bearer Plants. The amendment of IAS 16 and IAS 41 has the objective to include in IAS 16 the concept of bearer plants and determine their recognition as fixed assets. These revised standards are effective for years beginning on or after January 1, 2016.

• IFRS 9 - Financial Instruments. Has the objective of replacing the standard IAS 39 and addresses some application questions and introduced a fair value through other comprehensive income measurement category for particular simple debt instruments. Also, the IASB added to IFRS 9 the impairment requirements relating to the accounting for an entity s expected credit losses on its financial assets and commitments to extend credit. This standard is effective for annual reporting periods beginning on or after January 1, 2018.

• Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between and Investor and its Associate or Joint Venture. Has the objective to establish accounting treatment for transactions with assets between an investor and associate or jointly controlled entity. These revised standards are effective for annual periods beginning on or after January 1, 2016.

• Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 - Annual Improvements to IFRSs. These revised standards are effective for years beginning on or after January 1, 2016.

• Amendments to IAS 1 Disclosure Initiative. Provides guidance related to changes in the set of financial statements of an entity. This revised standard is effective for years beginning on or after January 1, 2016.

• Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception. Provides disclosure requirements of financial statements for investment entities. These revised standards are effective for annual periods beginning on or after January 1, 2016.

The Company evaluated the standards and revised standards above and estimates no significant accounting impacts on its Consolidated Financial Statements.

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NOTE 3 - CONSOLIDATED FINANCIAL STATEMENTS

3.1 - Subsidiaries

Listed below are the significant consolidated subsidiaries, as follows:

			Equity Interests	
			Total capital (*)	
Consolidated company	**Country**	**2014**	**2013**	**2012**
Gerdau GTL Spain S.L.	Spain	100.00	100.00	100.00
Gerdau Internacional Empreendimentos Ltda	Brazil	100.00	100.00	100.00
Gerdau Ameristeel Corporation and subsidiaries (1)	USA/Canada	100.00	100.00	100.00
Gerdau Açominas S.A.	Brazil	95.85	95.22	93.98
Gerdau Aços Longos S.A. and subsidiaries (2)	Brazil	94.34	93.48	93.97
Gerdau Steel Inc.	Canada	100.00	100.00	100.00
Gerdau Holdings Inc. and subsidiary (3)	USA	100.00	100.00	100.00
Paraopeba - Fixed-income investment fund (4)	Brazil	88.74	60.09	53.10
Gerdau Holdings Europa S.A. and subsidiaries (5)	Spain	100.00	100.00	60.00
Gerdau América Latina Participações S.A.	Brazil	94.22	94.22	94.22
Gerdau Chile Inversiones Ltda. and subsidiaries (6)	Chile	99.99	99.99	99.99
Gerdau Aços Especiais S.A.	Brazil	97.17	96.74	95.94
Gerdau Hungria Holdings Limited Liability Company and subsidiaries (7)	Hungary	100.00	100.00	99.00
GTL Equity Investments Corp.	British Virgin Islands	100.00	100.00	100.00
Empresa Siderúrgica del Perú S.A.A. - Siderperú	Peru	90.03	90.03	86.66
Diaco S.A. and subsidiary (8)	Colombia	99.71	99.71	99.57
Gerdau GTL México, S.A. de C.V. and subsidiaries (9)	Mexico	100.00	100.00	100.00
Seiva S.A. - Florestas e Indústrias	Brazil	97.73	97.73	97.73
Itaguaí Com. Imp. e Exp. Ltda.	Brazil	100.00	100.00	100.00
Gerdau Laisa S.A.	Uruguai	100.00	100.00	100.00
Sipar Gerdau Inversiones S.A.	Argentina	99.99	99.99	99.99
Sipar Aceros S.A. and subsidiary (10)	Argentina	99.96	99.96	99.96
Siderúrgica del Pacífico S.A.	Colombia	98.32	98.32	98.32
Cleary Holdings Corp.	Colombia	100.00	100.00	100.00
Sizuca - Siderúrgica Zuliana, C. A.	Venezuela	100.00	100.00	100.00
GTL Trade Finance Inc.	British Virgin Islands	100.00	100.00	100.00
Gerdau Trade Inc.	British Virgin Islands	100.00	100.00	100.00
Gerdau Steel India Ltd.	India	98.83	98.38	94.69

(*) The voting capital is substantially equal to the total capital. The interests reported represent the ownership percentage held directly and indirectly in the subsidiary.

(1) Subsidiaries: Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.

(2) Subsidiary: Gerdau Açominas Overseas Ltd.

(3) Subsidiary: Gerdau MacSteel Inc.

(4) Fixed-income investment fund managed by Banco JP Morgan S.A..

(5) Subsidiaries: Gerdau Holdings Europa S.A. y CIA., Sidenor y Cia, Sociedad Colectiva, Gerdau I+D Europa., Gerdau Aceros Especiales Europa.

(6) Subsidiaries: Aza Participaciones S.A., Industrias del Acero Internacional S.A., Gerdau Aza S.A., Distribuidora Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A., Matco Instalaciones Ltda

(7) Subsidiaries: LuxFin Participation S.L., Bogey Holding Company Spain S.L. and Bogey Servicios Corporativos S.L..

(8) Subsidiaries: Laminados Andinos S.A. and Cyrgo S.A..

(9) Subsidiaries: Sidertul S.A. de C.V. and GTL Servicios Administrativos México, S.A. de C.V..

(10) Subsidiary: Siderco S.A.

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3.2 Joint ventures

Listed below are the interests in joint ventures:

Joint ventures	Country	Equity Interests Total capital(*) 2014	2013	2012
Gallatin Steel Company	USA		50.00	50.00
Bradley Steel Processors	Canada	50.00	50.00	50.00
MRM Guide Rail	Canada	50.00	50.00	50.00
Gerdau Corsa S.A.P.I. de CV	Mexico	50.00	50.00	50.00
Gerdau Metaldom Corp.	Dominican Rep.	45.00		

(*)The voting capital is substantially equal to the total capital. The interests reported represent the ownership percentage held directly and indirectly held in the joint venture.

On October 8, 2014, the Company concluded the sale of its interest of 50% held on the jointly-controlled entity Gallatin Steel Company (Gallatin) for the amount of R$ 937.8 million. Gallatin is a flat rolled mini-mill located in Gallatin County, Kentucky, USA that melts scrap, pig iron and hot briquetted iron from various sources, and processes the material to produce flat rolled steel. The gain from the sale of this interest was R$ 636,528 and was recognized in Income, in the item Gains in Joint ventures operations .

On October 16, 2014, the Company completed the merger of its associate Multisteel Business Holdings Corp. with the Dominican company Metaldom, originating the jointly-controlled entity Gerdau Metaldom Corp., which will produce long and flat steel for the areas of civil construction, industrial and agricultural, and also scrap processing operations and PVC pipes, with over one million tons/year of installed capacity. As a result of the merger, the Company has contributed its interest of 79.97% on the associate Multisteel Business Holdings Corp. into the newly formed entity Gerdau Metaldom, in exchange of 45% interest on Gerdau Metaldom Corp.. This transaction was recorded on fair value basis , which was substantially equivalent to the book value of the previous investment.

The summarized financial information of the jointly-controlled entities, accounted for under the equity method, is shown on a combined basis as follows:

	Jointly-controlled entities 2014	2013
Net income	262,608	67,893
Total comprehensive income	262,608	67,893

3.3 Associate companies

Listed below are the interests in associate companies:

		Equity interests Total capital (*)		
Associate companies	**Country**	**2014**	**2013**	**2012**
Dona Francisca Energética S.A.	Brazil	51.82	51.82	51.82
Armacero Industrial y Comercial S.A.	Chile	50.00	50.00	50.00
Multisteel Business Holdings Corp. and subsidiaries	Dominican Rep.	0.00	79.97	49.00
Corsa Controladora, S.A. de C.V. and subsidiaries	Mexico	49.00	49.00	49.00
Corporación Centroamericana del Acero S.A. and subsidiaries	Guatemala	30.00	30.00	30.00
Maco Holdings Ltda.	Brazil			46.58

(*)The voting capital is substantially equal to the total capital. The interests reported represent the ownership percentage held directly and indirectly.

Although the Company owns more than 50% of Dona Francisca Energética S.A. and Multisteel Business Holding Corp., it does not consolidate the financial statements of this associate because of the veto rights granted to minority shareholders that prevent the Company from controlling the decisions in conducting the associate s business.

Armacero Industrial e Comercial S.A. is an associate company and none of its equity holders control the company. The remaining interest in this company is held by another partner and there is no shareholders agreement providing joint-control.

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The summarized financial information of the associate companies, accounted for under the equity method, is shown on a combined basis as follows:

	Associate Companies	
	2014	2013
Net income	51,136	51,209
Total comprehensive income	51,136	51,209

3.4 Acquisition of additional interest in subsidiaries and business combinations

a) Kalyani Gerdau Steel Ltds (KGS) (currently named Gerdau Steel India Ltd.)

On July 7, 2012, the Company obtained control of its then joint venture Kalyani Gerdau Steel Ltds (KGS), which is a specialty steel producer based in India and in which the Company had an interest of 91.28% as of the date of obtaining control. During 2012, before the date on which the Company acquired control over KGS, the Company made capital increases in KGS, which resulted in an increase of its shareholding interest held from 80.57% at December 31, 2011 to 91.28%. Control was obtained as a result of the expiration of the veto powers of the other shareholder of KGS and of its right to make contributions to increase its interest in KGS to the level of its original interest. As a result of the obtaining of control, the Company considered the transaction as a step acquisition, remeasuring the previously held interest in KGS at its fair value amounting to R$ 261,910 and recognizing a gain in the statement of income of R$ 2,952 under other operating income. This gain included the recycling to income of the amount in accumulated other comprehensive income related to the cumulative translation adjustment of KGS of R$ 8,031 and the related deferred taxes. Additionally, the original goodwill in the amount of R$ 28,389 was derecognized and new goodwill was recognized upon acquisition of control in the amount of R$ 39,372. The new goodwill is not deductible for tax purposes and is presented in the Goodwill account.

The gain of R$ 2,952 recognized in the statement of income referred to above has been determined as follows:

Estimated fair value of the previously held 91.28% interest in Kalyani Gerdau Steel Ltds (Kalyani) as of July 7, 2012	R$	261,910
Less:		
Carrying amount of the investment in the joint venture Kalyani recorded under Investment in associates and joint ventures as of July 7, 2012	R$	(146,720)
Carrying amount of the advances for capital increases in Kalyani recorded under Advance for capital increase in joint ventures as of July 7, 2012	R$	(104,215)
Sub-total carrying amount	R$	(250,935)
Excess of fair value over carrying amount	R$	10,975
Less:		
Cumulative translation adjustment (loss) recycled to the income statement related to the Kalyani joint venture net of tax effect	R$	(8,031)
Rounding effect	R$	8

Gain recognized in the income statement upon obtaining control of Kalyani	R$	2,952

We have accounted for the acquisition of control of Kalyani as a business combination achieved in stages since we obtained control in Kalyani on which we already held an equity interest immediately before the acquisition date.

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We remeasured our previously held equity interest to its estimated fair value and we recognized the resulting gain in income. Additionally, we recognized in profit and loss the cumulative amount recorded through July 7, 2012 in accumulated comprehensive income as if we had disposed of our previously held interest in Kalyani.

The company concluded the fair value assessment of the assets and liabilities of KGS and the following table summarizes the final fair value of such assets and liabilities at the date of business combination:

	Book Value	**Acquisition Adjustments**	**Fair value upon acquisition**
Current assets	164,230	(16,775)	147,455
Property, plant and equipment	358,678	16,766	375,444
Goodwill	28,389	10,983	39,372
Other non-current assets	35,610		35,610
Current liabilities	(97,346)		(97,346)
Non-current liabilities	(227,320)		(227,320)
Non-controlling interest	(11,306)	1	(11,305)
Net assets	250,935	10,975	261,910

The revenue of KGS which has been included in the Company s Consolidated Financial Statements from the business combination date through December 31, 2012 is not material. KGS, from the date of acquisition of control through December 31, 2012 generated a net loss of R$ 77,318. The amounts of revenue and net income that would have been consolidated for the year ended December 31, 2012, if KGS had been acquired as from January 1, 2012, are also not material.

b) Cycle Systems

a) On January 31, 2013, the Company acquired certain operating assets and assumed certain operating liabilities from Cycle Systems, Inc. (Cycle Systems) in the amount of US$ 13,610 thousands (equivalent to R$ 27,061 at the acquisition date). Cycle Systems, headquartered in Roanoke, Va. operates nine scrap yard locations throughout Virginia, including a Shredder and a number of feeder yards, processing approximately 185,000 tons of scrap per year.

The table below summarizes the fair value measurements of the assets acquired and liabilities at the acquisition date:

	Book Value	**Acquisition Adjustments**	**Fair value upon acquisition**
Current assets	13,919		13,919
Goodwill		829	829
Property, plant and equipment	17,276		17,276
Current liabilities	(4,963)		(4,963)
Net assets	26,232	829	27,061

Amounts related to net sales and accounts receivables, attributed to Cycle Systems and included in the Company s Consolidated Financial Statements since the acquisition date are not material. Cycle Systems, since the acquisition date until December 31, 2013, did not generate significant amounts of net sales and net income. In addition, the amount of net sales and net profit generated by this entity during the period ended December 31, 2013, had it been acquired at the beginning of that period, would not have been material.

c) Cyrgo

On September 2, 2013, the Company acquired 100% of the Company Cyrgo S.A. (Cyrgo) by the amount of COP$ 23,789 million (equivalent to R$ 29,261 at the acquisition date). Cyrgo is a construction and steel products distributor, headquartered in Bogota, Colombia.

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The table below summarizes the fair value measurements of the assets acquired and liabilities at the acquisition date:

	Book Value	Acquisition Adjustments	Fair value upon acquisition
Current assets	42,490		42,490
Property, plant and equipment	1,891		1,891
Goodwill		26,465	26,465
Current liabilities	(41,585)		(41,585)
Net assets	2,796	26,465	29,261

Amounts related to net sales and accounts receivables, attributed to Cyrgo, included in the Company s Consolidated Financial Statements since the acquisition date are not material. Cyrgo, since the acquisition date until December 31, 2013, did not generate significant amounts of net sales and net income. In addition, the amount of net sales and net profit generated by this entity during the period ended December 31, 2013, had it been acquired at the beginning of that period, would not have been material.

d) Gerdau Açominas S.A., Gerdau Aços Especiais S.A. and Gerdau Aços Longos S.A.

The Company acquired from its parent company Metalúrgica Gerdau S.A. an additional interest of 0.63%, 0.43% and 0.86% in Gerdau Açominas S.A., Gerdau Aços Especiais S.A. and Gerdau Aços Longos S.A., respectively. The amount paid on the operation was R$ 130.199.

e) Gerdau Steel India Ltd.

In 2013 the Company acquired an additional interest of 4.14% in subsidiary Gerdau Steel India Ltd. (formerly named Kalyani Gerdau Steel Ltd.). The amount paid for the transaction was R$ 18,151 and, as a result of the transaction and in accordance with IFRS 10, the Company recognized in equity, under the row Effects of interest changes in subsidiaries , the amount R$ 8,090, which is the difference between the amount paid and the amount of the non-controlling interests in the net assets acquired.

f) Gerdau Hungria Holdings LLC

In 2013 the Company acquired from Grupo Gerdau Empreendimentos Ltda., an additional interest of 1% in the subsidiary Gerdau Hungria Holdings LLC. The amount paid was R$ 14,939 and, as a result of the transaction and in accordance with IFRS 10, the Company recognized in equity, under the row Effects of interest changes in subsidiaries , the amount of R$ (385), which is the difference between the amount paid and the amount of the non-controlling interests in the net assets acquired.

3.5 - Acquisition of additional interest in associated companies

a) Multisteel Business Holdings Corp.

In 2013 the Company acquired an additional interest of 30.97% in the associate Multisteel Business Holdings Corp., holding 79.97% of interest in the associate. Control was not characterized due to the shareholders agreement that granted veto rights to the other shareholder on important matters of the associate. The amount paid for the transaction was US$ 22,131 thousand (R$ 51,383 at the acquisition date). The assets fair value is close to the amount paid in the acquisition.

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3.6 - Total cash paid for business combinations and increases of interest in subsidiaries in the years ended December 31, 2014, 2013 and 2012

Companies / interest acquired	2014	2013
Acquisitions		
Cycle Systems Inc.		26,361
Cyrgo S/A		29,261
		55,622
Interest increase in subsidiaries		
Gerdau Açominas S.A., Gerdau Aços Especiais S.A. e Gerdau Aços Longos S.A.	130,199	
Gerdau Steel India Ltd.		18,151
Gerdau Hungria Holdings LLC		14,939
	130,199	33,090
Interest increase in associate company		
Multisteel Business Holdings Corp.		51,383
		51,383

There was no cash paid for business combinations and increases in already controlled subsidiaries in the year ended December 31, 2012.

NOTE 4 CASH AND CASH EQUIVALENTS, AND SHORT AND LONG-TERM INVESTMENTS

	2014	2013
Cash	7,155	7,385
Banks and immediately available investments	3,042,816	2,091,839
Cash and cash equivalents	3,049,971	2,099,224

	2014	2013
Held for trading	2,798,834	2,123,168
Short-term investments	2,798,834	2,123,168

Held for trading securities include Bank Deposit Certificates and marketable securities, which are stated at their fair value. Income generated by these investments is recorded as financial income.

NOTE 5 TRADE ACCOUNTS RECEIVABLE

	2014	2013
Trade accounts receivable - in Brazil	1,513,449	1,378,989
Trade accounts receivable - exports from Brazil	247,772	318,453
Trade accounts receivable - foreign subsidiaries	2,776,269	2,480,985
(-) Allowance for doubtful accounts	(98,814)	(99,621)

	4,438,676	4,078,806

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Accounts receivable by aging are as follows:

	2014	2013
Current	3,329,802	3,104,238
Past-due:		
Up to 30 days	727,323	730,309
From 31 to 60 days	174,509	126,886
From 61 to 90 days	59,009	39,739
From 91 to 180 days	84,901	81,829
From 181 to 360 days	95,239	43,085
Above 360 days	66,707	52,341
(-) Allowance for doubtful accounts	(98,814)	(99,621)
	4,438,676	4,078,806

The changes in the allowance for doubtful accounts are as follows:

Balance as of January 1, 2012	(62,236)
Provisions for bad debt during the year	(50,763)
Recoveries in the year	789
Write-offs	26,934
Exchange variation	(110)
Balance as of December 31, 2012	(85,386)
Provisions for bad debt during the year	(53,316)
Recoveries in the year	5,971
Write-offs	32,982
Exchange variation	128
Balance as of December 31, 2013	(99,621)
Provisions for bad debt during the year	(53,926)
Recoveries in the year	4,036
Write-offs	50,691
Exchange variation	6
Balance as of December 31, 2014	(98,814)

NOTE 6 - INVENTORIES

	2014	2013
Finished products	4,039,615	3,493,293
Work in progress	1,799,380	1,784,136
Raw materials	1,873,287	1,951,425
Storeroom supplies	656,459	842,646
Advances to suppliers	285,146	176,412
Imports in transit	279,364	325,055
(-) Allowance for adjustments to net realizable value	(66,363)	(73,276)
	8,866,888	8,499,691

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The allowance for adjustment to net realizable value of inventories, on which the provision and write-offs are registered with impact on cost of sales, is as follows:

Balance as of January 01, 2012	(13,347)
Provision for the year	(141,121)
Write-offs	86,710
Exchange rate variation	(4,111)
Balance as of December 31, 2012	(71,869)
Provision for the year	(56,752)
Write-offs	61,453
Exchange rate variation	(6,108)
Balance as of December 31, 2013	(73,276)
Provision for the year	(63,440)
Write-offs	69,502
Exchange rate variation	851
Balance as of December 31, 2014	(66,363)

NOTE 7 TAX CREDITS

	2014	2013
Current		
ICMS (state VAT)	145,477	137,897
Social security financing	291,210	266,077
Financing of social integration program	59,041	58,792
IPI (federal VAT)	48,034	65,958
IVA (value-added tax)	94,503	157,093
Others	48,693	30,989
	686,958	716,806
Non-current		
ICMS (state VAT)	72,455	94,671
Social security financing	2,183	3,643
Financing of social integration program and Others	3,774	5,155
	78,412	103,469
	765,370	820,275

The estimates of realization of non-current tax credits are as follows:

	2014	2013
2015		34,265
2016	25,010	32,422
2017	25,010	32,422
2018	25,010	4,360
2019 on	3,382	
	78,412	103,469

NOTE 8 - INCOME AND SOCIAL CONTRIBUTION TAXES

In Brazil, income taxes include federal income tax (IR) and social contribution (CS), which represents an additional federal income tax. The statutory rates for income tax and social contribution are 25% and 9%, respectively, and are applicable for the years ended December 31, 2013, 2012 and 2011. The foreign subsidiaries of the Company are subject to taxation at rates ranging between 21% and

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38.5%. The differences between the Brazilian tax rates and the rates of other countries are presented under Difference in tax rates in foreign companies in the reconciliation of income tax and social contribution below.

a) Reconciliations of income and social contribution taxes at statutory rates to amounts presented in the Statement of Income are as follows:

	2014	2013	2012
Income before income taxes	1,337,984	1,452,646	1,559,462
Statutory tax rates	34%	34%	34%
Income and social contribution taxes at statutory rates	(454,915)	(493,900)	(530,217)
Tax adjustment with respect to:			
- Difference in tax rates in foreign companies	275,612	269,466	154,713
- Equity in earnings of unconsolidated companies	34,638	18,360	2,840
- Interest on equity	76,919	119,773	40,264
- Tax credits and incentives	24,885	35,880	38,449
- Capital Gain*			(122,121)
- Tax deductible goodwill recorded in statutory books	358,835	358,835	358,835
- Non-recurring effects	(81,675)	(69,290)	(18,166)
- Tax payment program on foreign generated profits	(87,759)		
- Other permanent differences, net	3,849	1,932	12,181
Income and social contribution taxes	150,389	241,056	(63,222)
Current	(571,926)	(318,422)	(316,271)
Deferred	722,315	559,478	253,049

* On December 27, 2012 the Company exchanged with its subsidiary Gerdau Aços Longos its interest in Gerdau Comercial de Aços for an additional interest previously hold by Gerdau Aços Longos in Gerdau Internacional Empreendimentos. The disposal of the interest in Gerdau Comercial de Aços generated a taxable capital gain. The exchange was planned and consummated during 2012 as part of an internal corporate restructuring of some of its subsidiaries in Brazil.

In July 2014, the subsidiary Gerdau Internacional Empreendimentos Ltda., opted for the program of special payment of taxes, called REFIS of Foreign Generated Profits. The subsidiary registered the complement of income and social contribution taxes in Brazil due to foreign generated profits up to 2013 and decided for the payment of this amount. The net effect on the Consolidated Statement of Income was R$ 87,759. The company opted to keep the administrative defenses of tax assessments for the years from 2005 to 2007, taking into consideration that the evaluation of its legal counsel is a possible loss. Refer to note 17 II (a.2) for additional informationb) Breakdown and changes in deferred income and social contribution tax assets and liabilities at statutory tax rates:

	Balance as of January 1, 2012	Recognized in income	Business combination	Comprehensive Income	Gains/Losses on translation	Balance as of December 31, 2012
Tax loss carryforward	419,099	(3,091)			342,378	758,386
Social contribution tax losses	116,245	(3,514)				112,731
Provision for tax, civil and labor liabilities	293,528	60,197			3,498	357,223

Benefits granted to employees	282,246	(14,102)		95,777	35,337	399,258
Other temporary differences	131,663	(63,082)			60,088	128,669
Deferred exchange variance*		180,573				180,573
Provision for losses	61,010	(7,903)			3,480	56,587
Fair value adjustments on businesses acquired	(1,614,549)	103,971	(8,485)		(60,027)	(1,579,090)
	(310,758)	253,049	(8,485)	95,777	384,754	414,337
Non-current assets	1,547,967					2,210,300
Non-current liabilities	(1,858,725)					(1,795,963)

* Corresponds to deferred taxes over foreign exchange gains and loss which certain subsidiaries elected to tax on a cash basis

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	Balance as of December 31, 2012	Recognized in income	Others	Comprehensive Income	Gains/Losses on translation	Balance as of December 31, 2013
Tax loss carryforward	758,386	89,823			100,161	948,370
Social contribution tax losses	112,731	12,876	(3,914)			121,693
Provision for tax, civil and labor liabilities	357,223	84,762			2,394	444,379
Benefits granted to employees	399,258	(18,063)		(61,272)	1,797	321,720
Other temporary differences	128,669	(28,479)			41,026	141,216
Deferred exchange variance*	180,573	343,108				523,681
Provision for losses	56,587	(10,456)			(82)	46,049
Fair value adjustments on businesses acquired	(1,579,090)	85,907			(184,732)	(1,677,915)
	414,337	559,478	(3,914)	(61,272)	(39,436)	869,193
Non-current assets	2,210,300					2,056,445
Non-current liabilities	(1,795,963)					(1,187,252)

* Corresponds to deferred taxes over foreign exchange gains and loss which certain subsidiaries elected to tax on a cash basis

	Balance as of December 31, 2013	Recognized in income	Others	Comprehensive Income	Gains/Losses on translation	Balance as of December 31, 2014
Tax loss carryforward	948,368	56,168	(25,392)		24,297	1,003,441
Social contribution tax losses	121,695	26,623	509			148,827
Provision for tax, civil and labor liabilities	444,379	83,616			(264)	527,731
Benefits granted to employees	321,720	(41,188)		131,559	19,237	431,328
Other temporary differences	141,216	50,310			19,083	210,609
Deferred exchange variance*	523,681	351,061				874,742
Provision for losses	46,049	7,878			1,011	54,938
Fair value adjustments on businesses acquired	(1,677,915)	187,847			(138,905)	(1,628,973)
	869,193	722,315	(24,883)	131,559	(75,541)	1,622,643

Non-current assets	2,056,445	2,567,189
Non-current liabilities	(1,187,252)	(944,546)

* Corresponds to deferred taxes over foreign exchange gains and loss which certain subsidiaries elected to tax on a cash basis

c) Estimated recovery and reversal of income and social contribution tax assets and liabilities are as follows:

	Assets	
	2014	**2013**
2014		217,134
2015	232,745	163,495
2016	172,028	163,573
2017	172,344	321,843
2018	467,524	202,045
2019 on	1,522,548	988,355
	2,567,189	2,056,445

	Liabilities	
	2014	2013
2014		(68,500)
2015	(29,997)	(174,760)
2016	(174,362)	(163,952)
2017	(148,274)	(130,191)
2018	(93,956)	(97,625)
2019 on	(497,957)	(552,224)
	(944,546)	(1,187,252)

d) Tax Assets not booked:

The Company has not recorded a portion of tax assets arising from its operations in Brazil of R$ 300,964 (R$ 246,621 as of December 31, 2013), and negative basis of social contribution in subsidiaries, which do not have an expiration date. The subsidiaries in North America had R$ 232,213 (R$ 294,142 as of December 31, 2013) of tax credits on capital losses which deferred tax assets have not

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been booked and which expire in 2029 and also several tax losses of state credits in the amount of R$ 496,359 (R$ 321,365 as of December 31, 2013), which expire at various dates between 2015 and 2034.

e) Effects of Law 12.973/14 in force:

On May 13, 2014 the Provisional Measure 627 was converted into Law 12.973/14, confirming the repeal of the Transition Tax Regime (RTT) from 2015 on, with an option to anticipate its effects for 2014. The Company completed its examination on the impacts from the provisions of this Law, both in its financial statements, as in its internal control structure. Considering that the result of this analysis did not show material tax effects, the Company decided to early adopt the rules and provisions of the new legislation in the year 2014 only to the subsidiary Gerdau Internacional Empreendimentos Ltda..

NOTE 9 INVESTMENTS

I) Associates and joint ventures

	Joint Ventures						Associate companies		
	Joint Ventures North America (a)	Gerdau Corsa S.A.P.I. de C.V.	Gerdau Metaldom Corp.	Kalyani Gerdau Steel Ltd.	Dona Francisca Energética S.A.	Armacero Ind. Com. Ltda.	Grupo Multisteel Business Holdings Corp.	Corsa Controladora S.A. de C.V.	Co Am A
Balance as of January 01, 2012	266,520	49,488		21,745	123,797	19,784	222,057	223,736	
Equity in earnings	28,757	(5,957)		(17,102)	18,335	(548)	(17,501)	5,689	
Cumulative Translation Adjustment	25,420	8,476		(17,515)		4,090	18,834	37,616	
Capital increase				159,592					
Dividends/Interest on equity	(42,486)				(3,280)				
Reclassification of goodwill upon acquisition of control				28,389					
Acquisition of control (note 3.4)				(175,109)					
Balance as of December 31, 2012	278,211	52,007			138,852	23,326	223,390	267,041	
Equity in earnings	46,800	(10,755)			17,586	(2,181)	(1,114)	(8,180)	
Cumulative Translation Adjustment	38,804	11,036				4,975	35,905	37,342	
Capital reduction									
Acquisition/disposal of investment							51,383		
Fair value allocation on investment							(22,796)		
Capital increase		77,103							
	(37,051)				(23,521)				

Dividends/Interest on equity								
Balance as of December 31, 2013	326,764	129,391			132,917	26,120	286,768	296,203
Equity in earnings	71,518	(11,507)	7,389		23,765	(5,062)	17,923	1,029
Cumulative Translation Adjustment	(8,405)	(7,954)	30,942			(807)	15,502	1,177
Capital increase			37,678					
Mergers			288,272				(288,272)	
Impairment of assets							(31,921)	
Disposal of investment	(288,695)							
Dividends/Interest on equity	(61,030)				(32,471)			
Balance as of December 31, 2014	40,152	109,930	364,281		124,211	20,251		298,409

Composition of Goodwill by associate and joint ventures

	2014	2013	2012
Dona Francisca Energética S.A.	17,071	17,071	17,071
Grupo Multisteel Business Holding Corp.		30,396	46,195
Corsa Controladora S.A. de C.V.	187,981	186,419	163,269
Corporación Centroamericana del Acero, S.A.	261,362	230,504	199,835
	466,414	464,390	426,370

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NOTE 10 PROPERTY, PLANT AND EQUIPMENT

a) Summary of changes in property, plant and equipment:

Gross cost of the property, plant, and equipment	Land and buildings	Machines, equipment, and installations	Data electronic equipment	Property, plant and equipment under construction	Other	Total
Balances as of January 01, 2012	6,758,523	21,128,949	568,132	2,177,447	1,035,992	31,669,043
Additions	83,165	213,850	23,795	2,717,522	88,924	3,127,256
Capitalized interest				94,532		94,532
Transfers	164,030	719,649	120,170	(903,802)	(100,047)	
Disposals	(51,849)	(227,115)	(17,110)	(65,302)	(52,273)	(413,649)
Business Combination	91,603	162,638	1,792	101,115	1,530	358,678
Fair value allocation					14,941	14,941
Foreign exchange effect	355,622	997,330	21,574	172,693	37,114	1,584,333
Balances as of December 31, 2012	7,401,094	22,995,301	718,353	4,294,205	1,026,181	36,435,134
Additions	88,225	113,164	8,091	2,311,817	76,968	2,598,265
Capitalized interest				114,032		114,032
Transfers	604,179	2,502,103	(62,614)	(3,148,483)	104,815	
Disposals	(47,292)	(285,374)	(8,203)	(14,181)	(28,435)	(383,485)
Business Combination	4,613	10,739	137		3,678	19,167
Foreign exchange effect	429,292	1,399,969	40,903	180,226	50,334	2,100,724
Balances as of December 31, 2013	8,480,111	26,735,902	696,667	3,737,616	1,233,541	40,883,837
Additions	41,207	7,994	10,900	2,126,112	80,489	2,266,702
Capitalized interest				132,269		132,269
Transfers	397,150	1,463,771	35,302	(1,907,562)	11,339	
Disposals	(57,777)	(580,134)	(13,930)	(139,306)	(36,766)	(827,913)
Foreign exchange effect	223,074	806,541	26,516	116,498	8,010	1,180,639
Balances as of December 31, 2014	9,083,765	28,434,074	755,455	4,065,627	1,296,613	43,635,534

Accumulated depreciation	Land and buildings	Machines, equipment, and installations	Data electronic equipment	Property, plant and equipment under construction	Other	Total
Balances as of January 01, 2012	(2,519,623)	(11,058,011)	(458,556)		(337,782)	(14,373,972)
Depreciation, amortization and depletion	(223,015)	(1,356,762)	(47,556)		(44,945)	(1,672,278)
Transfers	(1,798)	(2,986)	(58,275)		63,059	
Disposals	3,295	97,325	17,207		48,432	166,259
Foreign exchange effect	(109,902)	(711,216)	(16,057)		(27,787)	(864,962)
Balances as of December 31, 2012	(2,851,043)	(13,031,650)	(563,237)		(299,023)	(16,744,953)
Depreciation, amortization and depletion	(275,102)	(1,510,291)	(42,003)		(54,134)	(1,881,530)
Transfers	(3,545)	4,553	34,449		(35,457)	
Disposals	19,353	113,004	6,727		37,854	176,938
Foreign exchange effect	(157,114)	(776,200)	(46,924)		(34,980)	(1,015,218)
Balances as of December 31, 2013	(3,267,451)	(15,200,584)	(610,988)		(385,740)	(19,464,763)
Depreciation, amortization and depletion	(305,995)	(1,591,703)	(42,231)		(76,205)	(2,016,134)
Transfers	(1,115)	911	171		33	
Disposals	27,433	441,774	12,217		72,892	554,316
Foreign exchange effect	(71,069)	(475,730)	(23,952)		(6,413)	(577,164)
Balances as of December 31, 2014	(3,618,197)	(16,825,332)	(664,783)		(395,433)	(21,503,745)

Net property, plant and equipment						
Balances as of December 31, 2012	4,550,051	9,963,651	155,116	4,294,205	727,158	19,690,181
Balances as of December 31, 2013	5,212,660	11,535,318	85,679	3,737,616	847,801	21,419,074
Balances as of December 31, 2014	5,465,568	11,608,742	90,672	4,065,627	901,180	22,131,789

The following useful lives are used to calculate depreciation, amortization, and depletion:

	Useful lives of property, plant and equipment
Buildings	20 to 33 years
Machines, equipment, and installations	10 to 20 years
Furniture and fixture	5 to 10 years
Vehicles	3 to 5 years
Data electronic equipment	2.5 to 6 years

b) Guarantees property, plant and equipment have been pledged as collateral for loans and financing in the amount of R$ 862,244 as of December 31, 2014 (R$ 615,997 and R$ 525,220 as of December 31, 2013 and 2012, respectively).

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c) Impairment of property, plant and equipment At December 31, 2014, the carrying amount of items of property, plant and equipment for which an impairment loss has been recognized in prior years is R$ 41,944 for land, buildings and construction (R$ 39,865 as of December 31, 2013) and R$ 205,101 for machines, equipment and installations (R$ 14,128 as of December 31, 2013). The amounts for the years presented on the table above are included in the Disposals row.

NOTE 11 GOODWILL

The changes in goodwill are as follows:

	Goodwill	Accumulated impairment losses	Goodwill after Impairment losses
Balance as of January 1, 2012	9,370,268	(214,479)	9,155,789
(+/-) Foreign exchange effect	855,606	(17,371)	838,235
(+) Reclassification upon acquisition of control	28,389		28,389
(+) Additions	10,983		10,983
Balance as of December 31, 2012	10,265,246	(231,850)	10,033,396
(+/-) Foreign exchange effect	1,324,790	(32,435)	1,292,355
(+) Additions (Note 3.4)	27,294		27,294
Balance as of December 31, 2013	11,617,330	(264,285)	11,353,045
(+/-) Foreign exchange effect	1,217,668	(14,309)	1,203,359
Balance as of December 31, 2014	12,834,998	(278,594)	12,556,404

The amounts of goodwill by segment are as follows:

	2014	2013	2012
Brazil	553,607	533,186	513,711
Special Steel	2,852,631	2,580,989	2,239,566
Latin America	701,434	781,208	770,843
North America	8,448,732	7,457,662	6,509,276
	12,556,404	11,353,045	10,033,396

NOTE 12 INTANGIBLE ASSETS

Intangible assets consist mainly of relationships recognized upon business combinations and software development:

	Supplier relationships	Software development	Customer contracts and relationships	Others	Total
Balance as of January 01, 2012	103,925	243,738	899,226	26,819	1,273,708
Foreign exhange effect		12,432	73,717	3,773	89,922

Acquisition		156,805			156,805
Disposal				(797)	(797)
Amortization	(13,331)		(140,567)	(1,324)	(155,222)
Balance as of December 31, 2012	90,594	412,975	832,376	28,471	1,364,416
Foreign exhange effect		29,885	111,425	2,149	143,459
Acquisition		140,337		18,058	158,395
Disposal				(20,374)	(20,374)
Amortization	(11,687)		(131,236)	(5,054)	(147,977)
Balance as of December 31, 2013	78,907	583,197	812,565	23,250	1,497,919
Foreign exhange effect		16,994	105,648	(741)	121,901
Acquisition		117,853		24,103	141,956
Disposal				(3,416)	(3,416)
Amortization	(10,222)	(54,252)	(128,960)	(17,828)	(211,262)
Balance as of December 31, 2014	68,685	663,792	789,253	25,368	1,547,098
Estimated useful lives	5 to 20 years	7 years	5 to 20 years	5 years	

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The composition of other intangible assets by segment is as follows:

	2014	2013	2012
Brazil	476,703	424,466	334,850
Special Steel	248,877	244,266	252,310
North America	821,518	829,187	777,256
	1,547,098	1,497,919	1,364,416

NOTE 13 LOANS AND FINANCING

Loans and financing are as follows:

	Annual charges (*)	2014	2013
Short term financing in Brazilian reais			
Working capital	5.88%	74,598	421,564
Financing of investment and others	10.84%	4,217	42,432
Short term financing in foreign currency			
Working capital (USD)	1.93%	606,979	514,417
Working capital (EUR)	2.26%	130,975	76,577
Working capital (CLP)	3.85%		10,164
Working capital (COP)	6.83%	159,698	91,435
Working capital (ARS)	18.55%	29,829	7,799
Working capital (MXN)	4.65%	40	26,743
Financing of property, plant and equipment and others (USD)	3.24%	1,648	4,920
Financing of property, plant and equipment and others (INR)	10.43%	150,029	125,209
Financing of property, plant and equipment and others (MXN)	4.65%	198,437	46,154
		1,356,450	1,367,414
Plus current portion of long-term financing		681,419	443,369
Short term financing plus current portion of long-term financing		2,037,869	1,810,783
Long-term financing in Brazilian reais			
Working capital	6.93%	2,101,327	111,592
Financing of property, plant and equipment and others	7.10%	1,241,207	1,800,819
Financing of investment	12.15%	60,011	627,350
Long-term financing in foreign currency			
Working capital (USD)	1.87%	645,330	334,290
Working capital (EUR)	2.26%	38,455	40,331
Working capital (COP)	6.84%	166,848	286,545
Working capital (ARS)	18.55%	106,105	14,271
Working capital (INR)	2.46%	2,252	10,924
Ten/Thirty Year Bonds (USD)	6.54%	13,059,526	10,844,032
Financing of investment (USD)	4.75%	184,166	160,216
Financing of property, plant and equipment and others (INR)	10.43%	13,800	98,897
Financing of property, plant and equipment and others (USD)	2.40%	210,972	561,947
Financing of property, plant and equipment and others (MXN)	5.66%		33,652
		17,829,999	14,924,866
Less: current portion		(681,419)	(443,369)
Long term financing minus current portion		17,148,580	14,481,497

Total financing	19,186,449	16,292,280
Principal amount of the financing	18,843,000	15,901,519
Accrued interest	343,449	390,761
Total financing	19,186,449	16,292,280

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(*) Weighted average effective interest costs on December 31, 2014.

Loans and financing denominated in Brazilian reais are indexed to the TJLP (long-term interest rate, CDI (Interbank Deposit Certificate), or by the IGP-M (general market price index), IPCA (Amplified Consumer Price) e SELIC (Special System for Settlement and Custody).

Summary of loans and financing by currency:

	2014	**2013**
Brazilian Real (BRL)	3,481,360	3,003,757
U.S. Dollar (USD)	14,708,621	12,419,822
Euro (EUR)	169,430	116,908
Colombian Peso (COP)	326,546	377,980
Argentine Peso (ARS)	135,934	22,070
Chilean Peso (CLP)		10,164
Mexican Peso (MXN)	198,477	106,549
Indian rupee (INR)	166,081	235,030
	19,186,449	16,292,280

The amortization schedules of long term loans and financing are as follows:

	2014	**2013**
2015		958,861
2016	893,003	592,501
2017	3,151,662	4,057,773
2018	754,884	502,723
2019	671,039	411,473
2020 and after	11,677,992	7,958,166
	17,148,580	14,481,497

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a) Main funding in 2014

In March 2014, the subsidiaries Gerdau Açominas S.A. and Gerdau Aços Especiais S.A. issued Export Credit Notes (NCE) in the amount of R$ 430 million and R$ 70 million, respectively, with Banco do Brasil bank. Gerdau S.A. is the guarantor of this transaction.

In April and May 2014, the Company, through its subsidiary GTL Trade Finance Inc., issued a 30 year Bond in the amount of US$ 500 million, with coupon of 7.25% a year, in which part of this Bond in the amount of US$ 250 million were used to a Tender Offer of Bonds which matured in 2017. The Company also had an Exchange Offer of part of its 2017 and 2020 Bonds issued by GTL Trade Finance Inc. and Gerdau Holdings Inc., respectively, by the new Bonds issuance of joint and several liability, which matures in 2024 with coupon of 5.893% a year in the total amount of US$ 1.2 billion. The Company designated these new Bonds as Net Investment Hedge and as a consequence of that the exchange rate variance of these debts will be recognized in the Net Equity and in the Statement of Comprehensive Income, as described in Note 15.f.

In August 2014, the Company and the subsidiaries Gerdau Açominas S.A., Gerdau Aços Especiais S.A. e Gerdau Aços Longos S.A. obtained a total amount of R$ 315 million on a pre-approved credit line of R$ 1.5 billion with BNDES.

In July and August 2014, the Company obtained a total amount of R$ 100 million through an export promotion credit line (EXIM) with BNDES.

b) Covenants

Certain debt agreements contain financial covenants as a tool used by creditors to monitor the Company s financial position. The following is a brief description of the financial covenants required under the Company s debt agreements.

I) Net Interest Coverage Ratio - measures the ability to pay net financial expenses in relation to EBITDA, as defined in the bank agreements (Earnings before Interest, Taxes, Depreciation, Amortization, Impairment). The contractual ratio indicates that the EBITDA for the last 12 months should represent at least 3 times the net financial expense of the same period for Gerdau S.A.. On December 31, 2014, the current ratio was 5.1 times.

II) Net Leverage Ratio - measures the level of net debt (considers the outstanding principal of the debt, less cash, cash equivalents and short-term investments) to EBITDA, as defined in the bank agreements. The contractual ratio indicates that the net debt should not surpass 4 times the EBITDA for the last 12 months. As of December 31, 2014, the current ratio was 2.4 times.

III) Current Ratio measures the company s ability in fulfilling its short term obligations. The contractual terms indicate that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of December 31, 2014 the current ratio was 2.7 times.

Based on the Company s internal forecasts, the Company does not expect to be in breach of any of the financial covenants over the next twelve months. Nevertheless, this forecast can be affected positive or negatively by global economics and the steel market.

c) Guarantees

All loans contracted under the FINAME/BNDES program, totaling R$ 85.1 million on the balance sheet date, are guaranteed by the assets being financed.

Certain other loans are guaranteed by the controlling shareholders, for which the Company pays a fee of 0.95% per year, of the amounts guaranteed.

d) Credit Lines

In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and the former subsidiary Aços Villares S.A.) obtained a pre-approved credit line with BNDES in the total amount of R$ 1.5 billion to be used for the revamp and modernization of several areas, an increase in the production capacity of certain product lines, investment in logistics and energy generation, and also environmental and sustainability projects. The funds are made available at the time each subsidiary starts its specific investment and presents to BNDES the evidence of the investment made. The interest rate for this credit line is determined at the time of each disbursement, and is composed by indexes linked to of TJLP + 2.16% p.a. As of December 31, 2014, the outstanding balance of this credit facility was R$ 924.7 million.

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In December, 2013, the Company concluded the renewal of the Senior Unsecured Global Working Capital Credit Agreement, which is a US$ 1.5 billion revolving credit line with the purpose of providing liquidity to its subsidiaries. The line is divided into two tranches, US$ 500 million destined for Gerdau s North American subsidiaries borrowing needs and US$ 1 billion for Gerdau s Latin American and Spanish subsidiaries borrowing needs. The following companies guarantee this agreement: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. This transaction has a 3 year term. As of December 31, 2014, the outstanding loans under the line totaled US$ 305.9 million (R$ 812.5 million as of December 31, 2014) and are classified as working capital (US$).

NOTE 14 DEBENTURES

	General	Quantity as of December 31, 2014				
Issuance	**Meeting**	**Issued**	**Held in treasury**	**Maturity**	**2014**	**2013**
3rd- A and B	May 27,1982	144,000	126,063	06/01/2021	81,834	87,834
7th	July 14, 1982	68,400	59,604	07/01/2022	51,787	101,859
8th	November 11, 1982	179,964	152,109	05/02/2013	107,144	130,921
9th	June 10, 1983	125,640	123,236	09/01/2014	14,154	27,584
11th - A and B	June 29, 1990	150,000	139,991	06/01/2020	55,863	66,297
14th	August 26, 2014	20,000	18,317	08/30/2024	24,254	
Total Consolidated					335,036	414,495
Current						27,584
Non-current					335,036	386,911

The debentures are denominated in Brazilian reais, they are not convertible into shares and have variable interest at a percentage of the CDI (Interbank Deposit Rate). The nominal annual interest rate was 10.81% and 8.06% as of December 31, 2014 and December 31, 2013, respectively.

NOTE 15 - FINANCIAL INSTRUMENTS

a) General considerations - Gerdau S.A. and its subsidiaries enter into transactions with financial instruments whose risks are managed by means of strategies and exposure limit controls. All financial instruments are recorded in the accounting books and presented as cash and cash equivalents, short-term investments, trade accounts receivable, trade accounts payable, Loans and financing, debentures, related-party transactions, unrealized gains on derivatives, unrealized losses on derivatives, other current assets, other non-current assets, other current liabilities and other non-current liabilities.

The Company has derivatives and non-derivative instruments, such as the hedge for some operations under hedge accounting. These operations are non-speculative in nature and are intended to protect the company against exchange rate fluctuations on foreign currency loans and against interest rate fluctuations.

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b) Market value the market value of the aforementioned financial instruments is as follows:

	2014		2013	
	Book value	**Fair value**	**Book value**	**Fair value**
Assets				
Cash and cash equivalents	3,049,971	3,049,971	2,099,224	2,099,224
Short-term investments	2,798,834	2,798,834	2,123,168	2,123,168
Trade accounts receivable	4,438,676	4,438,676	4,078,806	4,078,806
Related parties	80,920	80,920	87,159	87,159
Unrealized gains on derivatives	41,751	41,751	319	319
Other current assets	331,352	331,352	291,245	291,245
Other non-current assets	375,732	375,732	220,085	220,085
Liabilities				
Trade accounts payable	3,236,356	3,236,356	3,271,419	3,271,419
Loans and Financing	19,186,449	19,533,676	16,292,280	17,018,107
Debentures	335,036	335,036	414,495	414,495
Related parties			43	43
Other current liabilities	858,901	858,901	634,761	634,761
Other non-current liabilities	635,457	635,457	571,510	571,510
Unrealized losses on derivatives	8,999	8,999	3,283	3,283

The fair values of Loans and Financing are based on market premises, which may take into consideration discounted cash flows using equivalent market rates and credit rating. All other financial instruments, which are recognized in the Consolidated Financial Statements at their carrying amount, are substantially similar to those that would be obtained if they were traded in the market. However, because there is no active market for these instruments, differences could exist if they were settled in advance. Except for Short-term investments, Unrealized gains on derivatives and Unrealized losses on derivatives, which have their fair value measurement described in Note 15.g, the fair value of the other financial instruments described above are at Level 2 of the fair value hierarchy.

c) Risk factors that could affect the Company s and its subsidiaries businesses:

Price risk of commodities: this risk is related to the possibility of changes in prices of the products sold by the Company or in prices of raw materials and other inputs used in the productive process. Since the Company operates in a commodity market, net sales and cost of sales may be affected by changes in the international prices of their products or materials. In order to minimize this risk, the Company constantly monitors the price variations in the domestic and international markets.

Interest rate risk: this risk arises from the possibility of losses (or gains) due to fluctuations in interest rates applied to the Company s financial liabilities or assets and future cash flows and income. The Company evaluates its exposure to these risks: (i) comparing financial assets and liabilities denominated at fixed and floating interest rates and (ii) monitoring the variations of interest rates like Libor and CDI. Accordingly, the Company may enter into interest rate swaps in order to reduce this risk.

Exchange rate risk: this risk is related to the possibility of fluctuations in exchange rates affecting the amounts of financial assets or liabilities or of future cash flows and income. The Company assesses its exposure to the exchange rate by measuring the difference between the amount of

its assets and liabilities in foreign currency. The Company believes that the accounts receivables originated from exports, its cash and cash equivalents denominated in foreign currencies and its investments abroad are more than equivalent to its liabilities denominated in foreign currency. Since the management of these exposures occurs at each operation level, if there is a mismatch between assets and liabilities denominated in foreign currency, the Company may employ derivative financial instruments in order to mitigate the effect of exchange rate fluctuations.

Credit risk: this risk arises from the possibility of the subsidiaries not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the subsidiaries adopt the procedure of analyzing in details of the financial position of their customers, establishing a credit limit and constantly monitoring their balances. Regarding cash investments, the Company invests solely in financial institutions with low credit risk, as assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company s Credit Committee.

Capital management risk: this risk comes from the Company s choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debts and its own capital (Equity) based on internal policies and benchmarks. The KPIs (Key Performance Indicators) related to the objective Capital Structure Management are: WACC (Weighted Average Cost of Capital), Net Debt/ EBITDA, Net Financial Expenses Coverage Ratio, and Indebtedness/Equity Ratio. The Net Debt is composed of the outstanding principal of the debt, less cash, cash equivalents and short-

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term investments (notes 4, 13 and 14). The total capitalization is formed by Total Debt (composed by the outstanding principal of the debt) and equity (note 21). The Company may change its capital structure, as economic and financial conditions to optimize its financial leverage and its debt management. At the same time, the Company seeks to improve its ROCE (Return on Capital Employed) by implementing a working capital management and an efficient program of capital expenditures. In the long-term, the Company seeks to remain between the parameters below, admitting specific short-term variations:

WACC	between 10% to 13% a year
Net debt/EBITDA	less than or equal to 2.5 times
Net Financial Expenses Coverage Ratio	greater than 5.5 times
Debt/Equity Ratio	less than or equal to 60%

These key indicators are used to monitor objectives described above and may not necessarily be used as indicators for other purposes, such as impairment tests.

Liquidity risk: the Company s management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity. The maturity of long-term loans, financing, and debentures are presented in Notes 13 and 14, respectively.

			2014		
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Trade accounts payable	3,236,356	3,236,356			
Loans and financings	19,186,449	2,037,869	4,044,665	1,425,923	11,677,992
Debentures	335,036				335,036
	22,757,841	**5,274,225**	**4,044,665**	**1,425,923**	**12,013,028**

			2013		
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Trade accounts payable	3,271,419	3,271,419			
Loans and financings	16,292,280	1,810,783	1,551,362	4,560,496	8,369,639
Debentures	414,495	27,584			386,911
Related parties	43				43
	19,978,237	**5,109,786**	**1,551,362**	**4,560,496**	**8,756,593**

Sensitivity analysis:

The Company performed a sensitivity analysis, which can be summarized as follows:

Impacts on Statements of Income

Assumptions	Percentage of change	2014	2013
Foreign currency sensitivity analysis	5%	185,571	166,257
Interest rate sensitivity analysis	10bps	91,736	62,305
Sensitivity analysis of changes in prices of products sold	1%	425,463	398,630
Sensitivity analysis of changes in raw material and commodity prices	1%	249,120	247,804
Sensitivity analysis of interest rate swaps	10bps	9,110	8,986
Sensitivity analysis of NDF s (Non Deliverable Forwards)	5%	7,741	2,319

Foreign currency sensitivity analysis: As of December 31, 2014, the Company is mainly exposed to variations between the Brazilian *real* and US Dollar. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian *real* and the US Dollar on debts that do not have hedge operations. The impact calculated considering such variation in the foreign exchange rate totals R$ 185,571 and R$ 107,659 after the effects of changes in the net investment hedge described in note 15.g, as of December 31, 2014 (R$ 166,257 and R$ 73,726 of December 31, 2013, respectively) and represents income if appreciation of the Brazilian *real* against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian *real* against the US Dollar, however due to the investment hedge these effects would be mitigated when considered the income tax and exchange rate variance accounts.

The net amounts of trade accounts receivable and trade accounts payable denominated in foreign currency do not represent any relevant risk in the case of any fluctuation of exchange rates.

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Interest rate sensitivity analysis: The interest rate sensitivity analysis made by the Company considers the effects of an increase or reduction of 10 basis point (bps) on the average interest rate applicable to the floating part of its debt. The impact calculated, considering this variation in the interest rate totals R$ 91,736 as of December 31, 2014 (R$ 62,305 as of December 31, 2013) and would impact the Financial expenses account in the Consolidated Statements of Income. The specific interest rates to which the Company is exposed are related to the loans, financing, and debentures presented in Notes 13 and 14, and are mainly comprised by Libor and CDI Interbank Deposit Certificate.

Sensitivity analysis of changes in sales price of products and price of raw materials and other inputs used in production: the Company is exposed to changes in the price of its products. This exposure is associated with the fluctuation of the sale price of the Company s products and the price of raw materials and other inputs used in the production process, mainly for operating in a commodity market. The sensitivity analysis made by the Company considers the effects of an increase or of a reduction of 1% on both prices. The impact measured considering this variation in the price of products sold, considering the net income and costs of the year ended on December 31, 2014, totals R$ 425,463 (R$ 398,630 as of December 31, 2013) and the variation in the price of raw materials and other inputs totals R$ 249,120 as of December 31, 2014 (R$ 247,804 as of December 31, 2013). The impact in the price of products sold and raw materials would be recorded in the accounts Net Sales and Cost of Sales, respectively, in the Consolidated Statements of Income. The Company does not expect to be more vulnerable to a change in one or more specific product or raw material.

Sensitivity analysis of interest rate swaps: the Company has exposure to interest rate swaps for some of its loans and financing. The sensitivity analysis calculated by the Company considers the effects of either an increase or a decrease of 10 bps in the interest curve (Libor), and its impacts in the swaps mark to market. An increase of 10 bps in the interest curve represents an income of R$ 9,110 (income of R$ 8,986 as of December 31, 2013) and a decrease of 10 bps in the interest curve represents an expense in the same amounts as presented above. On December 31, 2014, these effects would be recognized in the statement of comprehensive income in the amount of R$ 9,110 (R$ 8,986 in the statement of comprehensive income on December 31, 2013). The interest rate swaps to which the Company is exposed to are presented in note 15.e.

Sensitivity analysis of forward contracts in US Dollar: the Company has exposure in forward contracts in US Dollar to some of its assets and liabilities. The sensitivity analysis calculated by the Company considers an effect of a 5% US Dollar depreciation or appreciation against the Colombian Peso and corresponds to the effects on the mark to market of such transactions. An increase of 5% on the US Dollar against the Colombian Peso represents a gain of R$ 7,741 as of December 31, 2014 (R$ 2,319 as of December, 31 2013) and a decrease of 5% on the US Dollar against the Colombian Peso represents a loss in the same amount presented above. The Dollar/Colombian Peso forward contracts were entered into to hedge liabilities (debt) and these effects in the mark to market would be recognized in the Consolidated Statement of Income. The forward contracts in US Dollar, in which the Company is exposed, are presented in note 15.e.

d) Financial Instruments per Category

Summary of the financial instruments per category:

2014 **Assets**	**Loans and receivables**	**Assets at fair value with gains and losses recognized in income**	**Assets at fair value with gains and losses recognized in shareholder s equity**	**Total**
Cash and cash equivalents	3,049,971			3,049,971

Short-term investments		2,798,834		2,798,834
Unrealized gains on financial instruments			41,751	41,751
Trade accounts receivable	4,438,676			4,438,676
Related parties	80,920			80,920
Other current assets	331,352			331,352
Other non-current assets	375,732			375,732
Total	8,276,651	2,798,834	41,751	11,117,236
Financial income	343,702	223,741		567,443

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Liabilities	Liabilities at market value with gains and losses recognized in income	Other financial liabilities at amortized cost	Total
Trade accounts payable		3,236,356	3,236,356
Loans and financings		19,186,449	19,186,449
Debentures		335,036	335,036
Related parties			
Other current liabilities		858,901	858,901
Other non-current liabilities		635,457	635,457
Unrealized losses on financial instruments	8,999		8,999
Total	8,999	24,252,199	24,261,198
Financial income	(7,530)	(2,110,944)	(2,118,474)

2013 Assets	Loans and receivables	Assets at fair value with gains and losses recognized in income	Total
Cash and cash equivalents	2,099,224		2,099,224
Short-term investments		2,123,168	2,123,168
Unrealized gains on financial instruments		319	319
Trade accounts receivable	4,078,806		4,078,806
Related parties	87,159		87,159
Other current assets	291,245		291,245
Other non-current assets	220,085		220,085
Total	6,776,519	2,123,487	8,900,006
Financial income	422,648	150,058	572,706

Liabilities	Liabilities at market value with gains and losses recognized in income	Liabilities at fair value with gains and losses recognized in shareholder s equity	Other financial liabilities at amortized cost	Total
Trade accounts payable			3,271,419	3,271,419
Loans and financings			16,292,280	16,292,280
Debentures			414,495	414,495
Related parties			43	43
Other current liabilities			634,761	634,761
Other non-current liabilities			571,510	571,510
Unrealized losses on financial instruments		3,283		3,283
Total		3,283	21,184,508	21,187,791
Financial income	(12,164)		(1,862,319)	(1,874,483)

As of December 31, 2014, the Company has derivative financial instruments such as interest rate swaps and forward contracts in US Dollar. Part of these instruments is classified as cash flow hedges and their effectiveness can be measured, having their unrealized losses and /or gains classified directly in Other Comprehensive Income. The other derivative financial instruments have their realized and unrealized losses and/or gains presented in the account Gains and losses on derivatives, net in the Consolidated Statement of Income.

e) Operations with derivative financial instruments

Risk management objectives and strategies: In order to execute its strategy of sustainable growth, the Company implements risk management strategies in order to mitigate market risks.

The objective of derivative transactions is always related to mitigating market risks as stated in our policies and guidelines. The monitoring of the effects of these transactions is performed monthly by the Cash Management and Debt Committee, which validates the mark to market of these transactions. All derivative financial instruments are recognized at fair value in the Consolidated Financial Statements of the Company.

Policy for use of derivatives: The Company is exposed to various market risks, including changes in exchange rates, commodities and interest rates. The Company uses derivatives and other financial instruments to reduce the impact of such risks on the fair value of its assets and liabilities or in future cash flows and results. The Company has established policies to evaluate the market risks and to

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approve the use of derivative transactions related to these risks. The Company enters into derivative financial instruments solely to manage market risks as mentioned above and never for speculative purposes. Derivative financial instruments are used only when they have a related position (asset or liability exposure) resulting from business operations, investments and financing.

Policy for determining fair value: the fair value of derivative financial instruments is determined using models and other valuation techniques, including future prices and market curves.

The derivative transactions may include: interest rate swaps, (both in the Libor dollar, as in other currencies), currency swaps and currency forward contracts.

Forward Contracts in US Dollar

The Company has entered into NDFs (Non Deliverable Forward) in order to mitigate the exchange variance risk on liabilities denominated in foreign currencies, mainly US dollar. The counterparties of these transactions are financial institutions with a low credit risk.

Swap Contracts

The Company entered into cross currency swap, designated as a cash flow hedge, contract whereby it receives a variable interest rate based on LIBOR in US dollars and pays a fixed interest rate based in the local currency. The counterparties to these transactions are financial institutions with low credit risk.

The derivatives instruments can be summarized and categorized as follows:

			Notional value		**Amount receivable**		**Amount payable**	
Contracts	**Position**		**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Forward								
Maturity at 2014				US$ 20.9 million		319		
Maturity at 2015			US$ 80,0 million		41,751			
*** Interest rate *swap***								
Maturity at 2014	receivable under the swap	Libor 6M + 0.90%		US$ 14.3 million				(274)
	payable under the swap	5.50%						

* ***Cross currency swap***										
Maturity between 2017 and 2018	receivable under the swap	Libor 6M +2% - 2.25%	US$	25.0 million	US$	25.0 million			(8,999)	(3,009)
	payable under the swap	10.17% - 11.02%	US$	40.0 million	US$	40.0 million				
Total fair value of financial instruments							41,751	319	(8,999)	(3,283)

Prospective and retrospective tests demonstrated the effectiveness of these instruments.

	2014	2013
Unrealized gains on financial instruments		
Current assets	41,751	319
	41,751	319
Unrealized losses on financial instruments		
Current liabilities		(274)
Non-current liabilities	(8,999)	(3,009)
	(8,999)	(3,283)

	2014	2013
Net Income		
Gains on financial instruments	43,692	14,990
Losses on financial instruments	(7,201)	(12,136)
	36,491	2,854
Other comprehensive income		
(Losses) Gains on financial instruments	(5,989)	5,363
	(5,989)	5,363

f) Net investment hedge

The Company designated as hedge of part of its net investments in subsidiaries abroad the operations of Ten/Thirty Years Bonds. As a consequence, the effect of exchange rate changes on these debts has been recognized in the Statement of Comprehensive Income.

The exchange variation generated on the operations of Ten/Thirty Years Bonds in the amount of US$ 2.7 billion (designated as hedges) is recognized in the Statement of Comprehensive Income, while the exchange rate on the portion of US$ 1.0 billion (not

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designated as hedges) is recognized in income. Additionally, the Company opted to designate as hedge of the net investment financing operations held by the subsidiary Gerdau Açominas SA, in the amount of US$ 0.2 billion, which were made in order to provide part of the funds to purchase these investments abroad.

The Company demonstrated high effectiveness of the hedge as from the debt hiring for acquisition of these companies abroad, whose effects were measured and recognized directly in the Statement of Comprehensive Income as an unrealized loss, net of taxes, in the amount R$ 948,991 for the year ended on December 31, 2014, respectively (loss of R$ 848,238 on December 31, 2013).

The objective of the hedge is to protect, during the existence of the debt, the amount of part of the Company s investment in the subsidiaries mentioned above against positive and negative oscillations in the exchange rate. This objective is consistent with the Company s risk management strategy. Prospective and retrospective tests demonstrated the effectiveness of these instruments.

g) Measurement of fair value:

The IFRS defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm s length transaction. The standard also establishes a three level hierarchy for the fair value, which prioritizes information when measuring the fair value by the company, to maximize the use of observable information and minimize the use of non-observable information. This IFRS describes the three levels of information to be used to measure fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 available, where (unadjusted) quoted prices are for similar assets and liabilities in non-active markets, or other data that is available or may be corroborated by market data for substantially the full term of the asset or liability.

Level 3 - Inputs for the asset or liability that are not based on observable market data, because market activity is insignificant or does not exist.

As of December 31, 2014, the Company had some assets which the fair value measurement is required on a recurring basis. These assets include investments in private securities and derivative instruments.

Financial assets and liabilities of the Company, measured at fair value on a recurring basis and subject to disclosure requirements of IFRS 7 as of December 31, 2014, are as follows:

			Fair Value Measurements at Reporting Date Using			
			Quoted Prices Active Markets for Identical Assets (Level 1)		Quoted Prices in Non-Active Markets for Similar Assets (Level 2)	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Current assets						
Short-term investments						
Trading	2,798,834	2,123,168	978,840	594,355	1,819,994	1,528,813
Financial instruments	41,751	319			41,751	319
	2,840,585	2,123,487	978,840	594,355	1,861,745	1,529,132
Current liabilities						
Financial instruments		274				274
Non-current liabilities						
Financial instruments	8,999	3,009			8,999	3,009
	8,999	3,283			8,999	3,283
	2,849,584	2,126,770	978,840	594,355	1,870,744	1,532,415

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NOTE 16 TAXES PAYABLE

	2014	2013
Payroll charges	112,883	201,696
ICMS (state VAT)	73,651	100,747
COFINS (tax on revenue)	22,084	26,577
IPI (federal VAT)	21,728	5,245
IVA (value-added tax) and others	175,144	139,508
	405,490	473,773

NOTE 17 PROVISIONS FOR TAX, CIVIL AND LABOR CLAIMS

The Company and its subsidiaries are party in judicial and administrative proceedings involving labor, civil and tax matters. Based on the opinion of its legal advisors, Management believes that the provisions recorded for these judicial and administrative proceedings is sufficient to cover probable and reasonably estimable losses from unfavorable court decisions, and that the final decisions will not have significant effects on the financial position, operational results and liquidity of the Company and its subsidiaries.

For claims whose expected loss is considered probable, the provisions have been recorded considering the judgment of the Management of the Company with the assistance of its legal advisors and the provisions are considered sufficient to cover expected probable losses. The balances of the provisions are as follows:

I) Provisions

	2014	2013
a) Tax provisions		
ICMS (state VAT)	25,825	24,924
Corporate Income Tax and Social Contribution Tax	34,038	31,827
Emergency Capacity Charge and Extraordinary Tariff Adjustment	32,853	51,334
Financing of social integration program and Social security financing	1,177,200	911,434
Other tax provisions and Social security contributions	38,171	38,178
b) Labor provisions	228,475	214,501
c) Civil provisions	39,793	22,400
	1,576,355	1,294,598

a) Tax Provisions

The tax provisions relate mainly to the discussions concerning the compensation of PIS (*Contribuição ao Programa de Integração Social - PIS*) credits, PIS and COFINS (*Contribuição para o Financiamento da Seguridade Social - COFINS*) on other revenues and exclusion of ICMS (*Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) from the PIS and COFINS tax base. With respect to proceedings dealing with

the exclusion of ICMS from the calculation basis of PIS and COFINS, the Company and its subsidiaries are judicially depositing the amounts involved.

b) Labor Provisions

The Company and its subsidiaries are party to labor claims. None of these claims involve individually significant amounts and corresponds mainly to overtime pay, health hazard premium, and hazardous duty premium, among others.

c) Civil Provisions

The Company and its subsidiaries are also a party to civil lawsuits arising in the normal course of its business, which totaled as of December 31, 2014 the amount shown as provision liabilities.

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The changes in the tax, labor and civil provisions are shown below:

	2014	2013
Balance at the beginning of the year	1,294,598	1,081,381
(+) Additions	213,285	350,770
(+) Monetary variation	128,305	63,882
(-) Reversal of accrued amounts	(59,714)	(209,485)
(+) Foreign exchange effect on provisions in foreign currency	(119)	8,050
Balance at the end of the year	1,576,355	1,294,598

II) Contingent liabilities for which provisions were not recorded

a) Tax contingencies

a.1) The Company and its subsidiary Gerdau Aços Longos S.A. and Gerdau Açominas S.A. have other lawsuits related to the ICMS (state VAT) which are mostly related to credit rights and rate differences, whose demands totaled R$ 997,366.

a.2) The subsidiaries Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., have a discussion related to IRPJ Corporate Income Tax and CSLL Social Contribution Tax in an updated amount of R$ 1,385,965, related to profits abroad.

a.3) The Company and its subsidiaries Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A., are parties to the lawsuits relating to other taxes. The total amount of these lawsuits is R$ 331,133.

a.4) The subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., discuss, administratively, the disallowance of the deductibility for income tax and social contribution purposes of goodwill related to the reorganization carried out in 2004/2005, pursuant to article 7 and 8 of Law 9532/97. The total updated amount of the discussions is R$ 3,408,393.

b) Civil contingencies

b.1) A lawsuit arising from the request by two civil construction unions in the state of São Paulo alleging that Gerdau S.A. and other long steel producers in Brazil share customers, thus, violating the antitrust legislation. After investigations carried out by the Economic Law Department (SDE), the final opinion was that a cartel exists. The lawsuit was therefore forwarded to the Administrative Council for Economic Defense (CADE) for judgment.

In May 2004, Gerdau S.A. filed a new lawsuit with the purpose of annulling the administrative proceeding grounded on formal irregularities found during the discovery.

CADE, irrespective of the request for submission of evidence that a cartel does not exist made by Gerdau S.A., judged the merits of the administrative proceedings on September 23, 2005 and, by a majority of votes, fined the Company, for formation of a cartel and other long steel producers an amount equivalent to 7% of gross revenues in the year before the Administrative Proceeding was commenced, excluding taxes.

Despite the CADE decision, the legal action filed by Gerdau S.A. follows its normal course and, currently, awaits judgment in the lower court. In the event the irregularities in the process alleged by Gerdau are recognized by the court, the CADE decision may be annulled.

Furthermore, in order to reverse the terms of the decision by CADE, Gerdau appealed to the Judiciary on July 26, 2006 by bringing a new ordinary suit that not only ratifies the request of the first suit begun by Gerdau, but also indicates irregularities found during the course of the administrative proceeding. On August 30, 2006, Gerdau was successful in obtaining legal protection in order to suspend the effects of CADE s decision (R$ 245,070 fine equal to 7% of the gross revenue in 1999, excluding taxes) until final court decision be reached, being offered a guarantee through a bank guarantee letter.

It should be noted that just prior to the CADE decision, the Public Prosecution Office of the state of Minas Gerais filed a Public Civil Action, based on the above-mentioned SDE decision, and, without mentioning any new elements, alleged that the Company was involved in activities which violated the antitrust legislation. Gerdau S.A. contested this allegation on July 22, 2005.

The Company denies having been engaged in any type of anti-competitive conduct and believes based on information available, including the opinion of its legal counsel, that the administrative proceeding presents irregularities, some of which are impossible to

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be remediated. With respect to the merit, Gerdau is certain that it did not practice the alleged conduct and, supported by the opinion of renowned experts, believes that it is more likely than not that the decision will be reverted.

b.2) The Company and its subsidiaries are parties to other demands of a civil nature that collectively have a discussion amount of approximately R$ 89,310. For these demands was not performed accounting accrual, since they were considered as possible losses, based on the opinion of its legal counsel.

Management considers that the risk of losses from other contingencies affecting the results or the consolidated financial position of the Company is not more likely than not.

III) Judicial deposits

The Company has judicial deposits related to tax, labor and civil lawsuits as listed below:

	2014	2013
Tax	1,286,651	1,093,517
Labor	66,608	57,456
Civil	77,606	4,434
	1,430,865	1,155,407

NOTE 18 - RELATED-PARTY TRANSACTIONS

a) Intercompany loans

	2014	2013
Assets		
Associate companies		
Armacero Ind. Com. Ltda.	9,198	31,109
Jointly-controlled entities		
Gerdau Corsa SAPI de C.V.	13,634	60
Aceros Corsa, S.A. de C.V.	7,729	
Others		
Fundação Gerdau	50,342	55,657
Others	17	333
	80,920	87,159

Liabilities			
Others			
Others		(43)	
		(43)	

	2014	2013	2012
Net financial income	2,743	1,573	1,594

b) Commercial operations

During the years ended December 31, 2014 and 2013, the Company, through its subsidiaries, entered into commercial operations with some of its associates and joint ventures including sales of R$ 478,225 as of December 31, 2014 (R$ 731,132 as of December 31, 2013) and purchases in the amount of R$ 225,247 as of December 31, 2014 (R$ 476,105 as of December 31, 2013). The net balance of accounts receivable totals R$ 252,998 as of December 31, 2014 (R$ 89,452 as of December 31, 2013).

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c) Financial operations

	Income (expenses)		
	2014	**2013**	**2012**
Shareholders			
Indac - Ind. Adm. e Comércio S.A. (*)	(5,399)	(12,480)	(16,539)
Grupo Gerdau Empreendimentos Ltda. (**)	888	604	

(*) Guarantees of certain financing in the amount of R$ 228,948 in 2014, for which the Company pays a fee of 0.95% of the amount guranteed .

(**) Rental agreement

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d) **Guarantees granted**

Related Party	Relationship	Type	Object	Original Amount	Maturity	Balance
Dona Francisca Energética S.A	Associate	Guarantee	Financing Agreements	152,020	Dec/14	2,628
Gerdau Açominas S.A.	Subsidiary	Guarantee	Financing Agreements	437,387	Jul/15 - Feb/21	526,582
Empresa Siderúrgica Del Peru S.A.A	Subsidiary	Guarantee	Financing Agreements	481,968	Sep/15 - Sep/16	405,071
GTL Trade Finance Inc.	Subsidiary	Guarantee	*10-year Bond*	1,744,000	Oct/17	2,312,371
GTL Trade Finance Inc.	Subsidiary	Guarantee	*30-year Bond*	1,118,000	Apr/44	1,328,100
Diaco S.A.	Subsidiary	Guarantee	Financing Agreements	470,492	May/15 - Oct/16	471,751
Gerdau Aços Especiais S.A.	Subsidiary	Guarantee	Electricity Purchase/Sale Agreement	1,664	Sep/16	8,354
Gerdau Holding Inc.	Subsidiary	Guarantee	*10-year Bond*	2,188,125	Jan/20	1,669,695
Gerdau Metaldom Corp.	Joint-venture	Guarantee	Financing Agreements	125,304	Jun/15 - Dec/17	126,083
Gerdau Metaldom Corp.	Joint-venture	Guarantee	Financing Agreements	112,852	Mar/15	55,399
Gerdau Trade Inc.	Subsidiary	Guarantee	10-year Bond	2,117,750	Jan/21	3,151,581
Gerdau Corsa S.A.P.I. de C.V.	Associate	Guarantee	*Financing Agreements*	1,269,065	Jun/15 - Mar/19	1,244,316
GTL Trade Finance Inc., Gerdau Holdings Inc.	Subsidiary	Guarantee	10-year Bond	2,606,346	Apr/24	3,096,144
Sipar Gerdau Inversiones	Subsidiary	Guarantee	Financing Agreements	1,665	Jun/17	15,532
Coquecol S.A.C.I.	Subsidiary	Guarantee	Financing Agreements	59,207	Feb/15 - Apr/19	69,061
Steelchem Trading Corporation	Associate	Guarantee	Financing Agreements	80,964	Mar/15 - Jun/15	106,248
Gerdau Trade Inc.	Subsidiary	Guarantee	10-year Bond	1,501,275	Apr/23	1,735,827
Gerdau Steel India Ltd.	Subsidiary	Guarantee	Financing Agreements	300,355	Dec/15 - Sep/18	270,980
Aceros Corsa S.A. de C.V.	Associate	Guarantee	Financing Agreements	44,050	Jun/15	46,459
Comercial Gerdau Bolivia	Subsidiary	Guarantee	Financing Agreements	9,804	Undetermined	10,625
Gerdau Açominas S.A.	Subsidiary	Guarantee	Financing Agreements	1,506,629	Jan/20 - Aug/20	1,502,806
Gerdau Ameristeel US. Inc.	Subsidiary	Guarantee	Financing Agreements	103,596	Oct/37	135,466
Gerdau Aços Longos S.A.	Subsidiary	Guarantee	Financing Agreements	426,098	Oct/24 - Dec/30	393,544
Siderurgica Zuliana, C.A.	Subsidiary	Guarantee	Financing Agreements	33,038	Jun/15	39,843
Sidertul, S.A. de C.V.	Subsidiary	Guarantee	Financing Agreements	308,350	Jun/16	45,118
Gerdau Aços Especiais S.A.	Subsidiary	Guarantee	Financing Agreements	70,000	Feb/20	70,000
Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais	Subsidiary	Guarantee	Financing Agreements	78,571	Jul/16	27,050

S.A.

e) Debentures

Debentures are held by direct or indirect shareholders in the amount of R$ 110,840 as of December 31, 2014 (R$ 162,615 as of December 31, 2013), which corresponds to 18,304 debentures (35,066 as of December 31, 2013).

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f) Price and interest

Loan agreements between Brazilian companies carry interest based on the CDI (Interbank Deposit Certificate) and Libor rate plus exchange variance, when applicable. Sales of products and purchases of inputs are made under terms and conditions agreed between the parties.

g) Key Management compensation

Gerdau S.A. paid to its key management salaries and variable compensation of R$ 46,580 during 2014 (R$ 30,737 in 2013). In 2014, the contributions of Gerdau S.A. to management s defined contribution pension plans totaled R$ 1,314 (R$ 1,189 in 2013).

Stock options granted to management are as follows:

	2014	
	Number of shares	**Weighted exercise price R$**
Available at beginning of the year	1,599,023	19.44
Options Exercised	(20,143)	17.34
Options Forfeited	(14,539)	19.47
Available at the end of the year	1,564,341	19.53

At the end of the year, the Restricted Shares resulting from the conversion process within the key management were:

	2014
Available at beginning of the year	2,251,873
Granted	1,190,854
Exercised	(52,328)
Forfeited	(14,208)
Available at the end of the year	3,376,191

Additional information on the long-term incentive plan are presented in Note 24.

The cost of long-term incentive plans recognized in income and attributable to key management (members of Board of Directors and executive officers) totaled R$ 16,043 during 2014 (R$ 9,503 and R$ 8,667 during 2013 and 2012, respectively).

NOTE 19 EMPLOYEE BENEFITS

Total assets and liabilities of all types of employee benefits granted by the Company and its subsidiaries as of December 31, 2014, are as follows:

	2014	2013
Plan assets - Defined benefit pension plan	196,799	
Plan assets - Defined contribution pension plan		555,184
Total assets	196,799	555,184
Actuarial liabilities - Defined benefit pension plan	870,480	488,345
Acturial liabilities - Post-employment health care benefit	351,538	369,065
Retirement and termination benefit liabilities	84,831	134,945
Total liabilities	1,306,849	992,355
Current	34,218	50,036
Non-current	1,272,631	942,319

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a) Post-employment defined benefit pension plan

The Company s Canadian and US subsidiaries sponsor defined benefit plans (Canadian Plan and American Plan), collectively referred to as the North-American Plans, that cover substantially all their employees and provide supplemental benefits to employees during retirement.

Additionally, the Company and its subsidiaries in Brazil sponsored a defined benefit pension plan (Brazilian plans), which are managed through Gerdau - Sociedade de Previdência Privada, a closed supplementary pension entity. In 2010, it was approved the settlement of a defined benefit plan, in which the participants had the rights for the benefit settled. All participants of those plans, which are now settled, were able to: (i) choose to adhere to a new defined contribution plan, as further described in item b , when it was authorized to transfer the amount related to the individual mathematical reserve from the settled plan for the new plan and add amounts to this reserve through future contributions and sponsors, plus the resources profitability; or (ii) do not transfer the reserve and maintain the benefit settled in the defined benefit plan, adjusted by the INPC (National Index of Consumer Prices).

The assumptions adopted for pension plans can have a significant effect on the amounts disclosed and recorded for these plans. Due to the migration process and the closing of the Brazilian pension plans in 2010, the Company is not calculating the potential effects of changes in discount rates and return rate on assets for these plans. The potential effects of changes to the North-American Plans on the Consolidated Statement of Income are presented below:

	1% Increase	1% Decrease
Discount rate	(18,892)	18,583

The accumulated amount recognized in other Comprehensive Income for employee benefits is R$ (1,102,623) at December 31, 2014 (R$ (1,023,945) at December 31, 2013).

Defined Benefit Pension Plan

The current expenses of the defined benefit pension plans are as follows:

	2014	2013	2012
Cost of current service	78,271	80,072	63,886
Interest expense	160,864	158,179	140,993
Return on plan assets	(186,800)	(164,800)	(211,548)
Past service cost		(11,029)	10,974
Curtailment	(17,961)		
Interest cost on unrecoverable surplus	51,494	38,215	52,243
Net pension cost	85,868	100,637	56,548

The reconciliations of assets and liabilities of the plans are as follows:

	2014	2013
Present value of defined benefit obligation	(3,791,670)	(3,113,818)
Fair value of plan assets	3,319,133	3,081,582
Asset ceiling restrictions on recognition of net funded assets	(201,144)	(456,109)
Net	(673,681)	(488,345)
Plan assets	196,799	
Defined benefit obligation	(870,480)	(488,345)

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Changes in plan assets and actuarial liabilities were as follows:

	2014	2013	2012
Variation of the plan obligations			
Obligation at the begining of the year	3,113,818	3,003,722	2,407,771
Cost of service	78,271	80,072	63,886
Interest expense	175,641	158,179	140,993
Payments of the benefits	(230,951)	(159,524)	(110,908)
Past service cost		(11,029)	10,974
Acturial remeasurements	466,829	(272,767)	300,328
Exchange Variance	278,843	315,165	190,678
Curtailment	(90,781)		
Obligation at the end of the year	3,791,670	3,113,818	3,003,722

	2014	2013	2012
Variation of the plan assets			
Fair value of the plan assets at the begining of the year	3,081,582	2,789,832	2,184,352
Return of the plan assets	201,576	164,800	211,548
Contributions from sponsors	44,679	90,237	208,578
Payments of benefits	(230,950)	(159,524)	(110,906)
Remeasurement	69,748	(33,417)	151,120
Exchange Variance	225,318	229,654	145,140
Curtailment	(72,820)		
Fair value of plan assets at the end of the year	3,319,133	3,081,582	2,789,832

The fair value of plan assets include shares of the Company in the amount of R$ 672 at December 31, 2014 (R$ 994 on December 31, 2013).

Amounts recognized as actuarial gains and losses in the Statement of Comprehensive Income are as follows:

	2014	2013	2012
Remeasurements	(69,748)	33,417	(151,120)
Actuarial Remeasurements	466,829	(272,767)	300,328
Restriction recognized in Other Comprehensive Income	(309,190)	(12,812)	64,049
Remeasurements recognized in Other Comprehensive Income	87,891	(252,162)	213,257

The historical actuarial remeasurements are as follows:

	2014	2013	2012	2011	2010
Present value of defined benefit obligation	(3,791,670)	(3,113,818)	(3,003,722)	(2,407,771)	(1,727,790)
Fair value of the plan assets	3,319,133	3,081,582	2,789,832	2,184,352	2,121,332
Surplus (Deficit)	(472,537)	(32,236)	(213,890)	(223,419)	393,542
	466,829	(272,767)	300,328	386,540	55,808

Experience adjustments on plan liabilities (Gain)					
Experience adjustments on plan assets (Gain)	(69,748)	33,417	(151,120)	208,940	(23,546)

Actuarial remeasurements are recognized in the period in which they occur and are recorded directly in comprehensive income.

The allocations for plan assets are presented below:

	2014	
	Brazilian Plans	American Plans
Fixed income	100.0%	46.1%
Variable income		41.8%
Others		12.1%
Total	100%	100%

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	2013	
	Brazilian Plans	**American Plans**
Fixed income	100.0%	42.4%
Variable income		47.4%
Others		10.2%
Total	100%	100%

The investment strategy for the Brazilian Plan is based on a long-term macroeconomic scenario. This scenario assumes a reduction in Brazil s sovereign risk, moderate economic growth, stable levels of inflation, exchange rates and moderate interest rates.

The Canadian and American subsidiaries have an Investment Committee that defines the investment policy for the defined benefit plans. The primary investment objective is to ensure the security of benefits that were accrued under the plans, providing an adequately funded asset pool which is separated and independent of the Company. To reach this objective, the fund must invest in a manner that adheres to safeguards and diversification to which a prudent investor of pension funds would normally adhere. These subsidiaries retain specialized consultants that advice and support Investment Committee decisions and recommendations.

The asset mix policy considers the principles of diversification and long-term investment goals, as well as liquidity requirements. To do this, the target allocation ranges between 60% in shares and 40% in debt securities.

The tables below show a summary of the assumptions used to calculate the defined benefit plans in 2014 and 2013, respectively:

	2014	
	Brazilian Plan	**North America Plan**
Average discount rate	11.69%	3.75% - 4.00%
Rate of increase in compensation	Not applicable	2.60% - 3.25%
Mortality table	AT-2000, per sex	RP-2000CH
Mortality table of disabled	AT-2000, per sex	Rates by age
Rate of rotation	Based on service and salary level/null	Based on age and/or the service

	2013	
	Brazilian Plan	**North America Plan**
Average discount rate	11.29%	4.50% - 4.75%
Rate of increase in compensation	Not applicable	3.25% - 4.25%
Mortality table	AT-2000 per sex	2014 and UP1994
Mortality table of disabled	AT-2000 per sex	2014 and UP1994
Rate of rotation	Based on service and salary level/null	Based on service and salary level

b) Post-employment defined contribution pension plan

The Company and its subsidiaries in Brazil, in the United States and in Canada maintain a defined contribution plan to which contributions are made by the sponsor in proportion to the contributions made by its participating employees. The total cost of these plans was R$ 115,346 in 2014 (R$ 107,699 in 2013).

c) Post-employment health care benefit plan

The North American plans include, in addition to pension benefits, specific health care benefits for employees who retire after a certain age and with a certain number of years of service. The Americans and Canadian subsidiaries have the right to change or eliminate these benefits, and the contributions are actuarially calculated.

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The net periodic costs of post-employment health care benefits are as follows:

	2014	2013	2012
Current service cost	4,701	5,011	4,430
Interests expense	16,389	17,253	17,321
Past service cost	(103,895)	(75,067)	
Net cost pension benefit	(82,805)	(52,803)	21,751

The funded status of the post-employment health benefits plans is as follows:

	2014	2013
Present value of obligations	(351,538)	(369,086)
Total net liabilities	(351,538)	(369,086)

Changes in plan assets and actuarial liabilities were as follows:

	2014	2013	2012
Change in benefit obligation			
Benefit obligation at beginning of the year	369,065	405,723	343,713
Cost of service	5,121	5,374	4,430
Interest expense	15,969	16,890	17,321
Past service cost	(103,895)	(75,067)	
Contributions from participants	1,769	2,816	2,906
Payment of benefits	(16,256)	(17,565)	(18,463)
Medical subsidy	510	1,302	873
Remeasurements	42,345	(20,980)	21,908
Exchange variations	36,910	50,593	33,035
Benefit obligation at the end of the year	351,538	369,086	405,723

	2014	2013	2012
Change in plan assets			
Contributions from sponsors	13,653	13,208	14,139
Contributions from participants	1,769	2,708	2,906
Medical subsidy	510	1,279	873
Payments of benefits	(15,932)	(17,195)	(17,918)
Fair value of plan assets at end of the year			

The historical actuarial gains and losses of the plans are as follows:

	2014	2013	2012	2011	2010
Present value of defined benefit obligation	(351,538)	(369,086)	(405,723)	(343,713)	(272,302)

Deficit	(351,538)	(369,086)	(405,723)	(343,713)	(272,302)
Experience adjustments on plan liabilities	42,345	(20,980)	21,908	30,330	29,170

The amounts recognized as actuarial gains and losses in other comprehensive income are as follows:

	2014	2013	2012
Losses on actuarial obligation	42,345	(20,980)	21,908
Actuarial losses recognized in Equity	42,345	(20,980)	21,908

The accounting assumptions adopted for post-employment health benefits are as follows:

	2014	2013
Average discount rate	3.75% - 4.00%	4.50% - 4.75%
Health treatment - rate assumed next year	7.00% - 7.65%	7.0% - 8.15%
Health treatment - Assumed rate of decline in the cost to achieve in the years of 2024 to 2029	4.00% - 5.00%	5.00%

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The assumptions adopted for post-employment health benefits have a significant effect on the amounts disclosed and recorded for post-employment health benefits plans. The change of one point percentage on discount rates would have the following effects:

	1% Increase	1% Decrease
Effect over total service costs and interest costs	303	(593)
Effect over benefit plan obligations	(45,048)	57,043

d) Other retirement and termination benefits

These amounts refer principally to the Social Plan sponsored by subsidiaries in Spain and approved by the representatives of the employees. The Plan allows a productivity increase by reducing jobs, which is made possible by an investment plan in technological improvements. The Plan also has the objective to promote the rejuvenation of the work force by hiring younger employees as older employees retire. The benefits of this plan provide a compensation supplement up to retirement date, cost of living allowance, and other benefits as a result of termination and retirement of the employees. The Company estimates that the total obligation for these benefits was R$ 84,831 as of December 31, 2014 (R$ 134,945 as of December 31, 2013).

NOTE 20 ENVIRONMENTAL LIABILITIES

The steel industry uses and generates substances that may damage the environment. The Company and its subsidiaries believe they are compliant with all the applicable environmental regulations in the countries where they operate. The Company s management performs frequent analysis with the purpose of identifying potentially impacted areas and a liability is recorded based on the best estimate of costs for investigation, treatment and cleaning of potentially affected sites. The Company uses estimates and assumptions to determine the amounts involved, which may change in the future, as result of the final investigations and the determination of the actual environmental impact. The balances of the provisions are as follows:

	2014	2013
Provision for environmental liabilities	116,421	105,663
Current	23,025	15,149
Non-current	93,396	90,514

NOTE 21 EQUITY

a) Capital The Board of Directors may, without need to change the bylaws, issue new shares (authorized capital), including the capitalization of profits and reserves up to the authorized limit of 1,500,000,000 common shares and 3,000,000,000 preferred shares, all without nominal value. In the case of capital increase through subscription of new shares, the right of preference shall be exercised in up to 30 days, except in the case of a public offering, when the limit is not less than 10 days.

Reconciliations of common and preferred outstanding shares are presented below:

	2014		2013		2012	
	Common shares	**Preferred shares**	**Common shares**	**Preferred shares**	**Common shares**	**Preferred shares**
Balance at beginning of the year	571,929,945	1,132,285,402	571,929,945	1,128,534,345	571,929,945	1,132,968,411
Treasure shares acquiring						(2,693,000)
Exercise of stock options		328,160		3,751,057		558,363
Other movements						(2,299,429)
Balance at the end of the year	571,929,945	1,132,613,562	571,929,945	1,132,285,402	571,929,945	1,128,534,345

At December 31, 2014, 573,627,483 common shares and 1,146,031,245 preferred shares are subscribed and paid up, with a total capital of R$ 19,249,181 (net of share issuance costs). Ownership of the shares is presented below:

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Shareholders			Shareholders 2014			
Shareholders	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.*	449,712,654	78.4	252,841,484	22.1	702,554,138	40.9
Brazilian institutional investors	30,103,837	5.2	152,013,820	13.3	182,117,657	10.6
Foreign institutional investors	21,604,383	3.8	578,731,779	50.4	600,336,162	34.9
Other shareholders	70,509,071	12.3	149,026,479	13.0	219,535,550	12.8
Treasury stock	1,697,538	0.3	13,417,683	1.2	15,115,221	0.8
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

			2013			
Shareholders	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.*	449,712,654	78.4	252,841,484	22.1	702,554,138	40.9
Brazilian institutional investors	29,436,374	5.1	171,866,798	15.0	201,303,172	11.7
Foreign institutional investors	21,919,936	3.8	562,964,554	49.1	584,884,490	34.0
Other shareholders	70,860,981	12.4	144,612,566	12.6	215,473,547	12.5
Treasury stock	1,697,538	0.3	13,745,843	1.2	15,443,381	0.9
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

			2012			
Shareholders	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.*	449,712,654	78.4	252,841,484	22.1	702,554,138	40.9
Brazilian institutional investors	26,937,159	4.7	180,724,706	15.8	207,661,865	12.1
Foreign institutional investors	23,148,777	4.0	530,037,997	46.2	553,186,774	32.2
Other shareholders	72,131,355	12.6	164,930,158	14.4	237,061,513	13.8
Treasury stock	1,697,538	0.3	17,496,900	1.5	19,194,438	1.0
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

* Metalurgica Gerdau S.A. is the controlling shareholder and Stichting Gerdau Johanpeter is the utltimate controlling shareholder of the Company.

Preferred shares do not have voting rights and cannot be redeemed but have the same rights as common shares in the distribution of dividends and also priority in the capital distribution in case of liquidation of the Company.

b) Treasury stocks

Changes in treasury stocks are as follows:

	2014			
	Common shares	R$	Preferred shares	R$
Opening balance	1,697,538	557	13,745,843	238,414
Exercise of stock options			(328,160)	(5,829)
Closing balance	1,697,538	557	13,417,683	232,585

	2013			
Opening balance	1,697,538	557	17,496,900	289,683
Exercise of stock options			(3,751,057)	(51,269)
Closing balance	1,697,538	557	13,745,843	238,414

	2012			
	Common shares	R$	Preferred shares	R$
Opening balance	1,697,538	557	13,062,834	236,642
Repurchases			2,693,000	44,932
Exercise of stock options			(558,363)	(10,572)
Other movements			2,299,429	18,681
Closing balance	1,697,538	557	17,496,900	289,683

As of December 31, 2014, the Company had 13,417,683 preferred shares in treasury (13,745,843 and 17,496,900 during at December 31, 2013 and 2012, respectively). These shares are held in treasury for subsequent cancellation or to be granted under the long-term incentive plan of the Company. During 2014, 328,160 shares were sold upon exercise of stock options (3,751,057 and 558,363 during the years ended December 31, 2013 and 2012, respectively) in the total amount of R$ 5,829 (R$ 51,269 and R$ 10,572 during the years ended December 31, 2013 and 2012, respectively), which were recorded under Investment and Working Capital reserve. The

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average acquisition cost of these shares was R$ 17.34 during 2014 (R$ 17.34 and R$ 15.12 during the years ended December 31, 2013 and 2012, respectively).

c) Capital reserves consists of premium on issuance of shares.

d) Retained earnings

I) Legal reserves - under Brazilian Corporate Law, the Company must transfer 5% of the annual net income determined on its statutory books in accordance with Brazilian accounting practices to the legal reserve until this reserve equals 20% of the paid-in capital. The legal reserve can be utilized to increase capital or to absorb losses, but cannot be used for dividend purposes.

II) Tax incentives reserve under Brazilian Corporate Law, the Company may transfer to this account part of net income resulting from government benefits which can be excluded from the basis for dividend calculation.

III) Investments and working capital reserve - consists of earnings not distributed to shareholders and includes the reserves required by the Company s by-laws. The Board of Directors may propose to the shareholders the transfer of at least 5% of the profit for each year determined in its statutory books in accordance with accounting practices adopted in Brazil to this reserve. Amount can be allocated to the reserve only after the minimum dividend requirements have been met and its balance cannot exceed the amount of paid-in capital. The reserve can be used to absorb losses, if necessary, for capitalization, for payment of dividends or for the repurchase of shares.

IV) Pension Plan - actuarial gains and losses on postretirement benefits.

e) Operations with non-controlling interests Corresponds to amounts recognized in equity for changes in non-controlling interests.

The effects of interest changes in subsidiaries for the years presented are composed of:

	December 31, 2014		
	Attributed to parent company s interest	**Non-controlling interests**	**Total**
(i) Changes in the Paraopeba Fixed Income Investment Fund		(550,000)	(550,000)
(iii) Other changes		(114,767)	(114,767)

Effects of interest changes in subsidiaries		(664,767)	(664,767)

	December 31, 2013		
	Attributed to parent company s interest	Non-controlling interests	Total
(i) Changes in the Paraopeba Fixed Income Investment Fund		42,097	42,097
(ii) Reclassification of balances due to changes in subsidiaries ownership as per note 3.1	(4,335)	4,335	
(iii) Other changes		(27,637)	(27,637)
Effects of interest changes in subsidiaries	(4,335)	18,795	14,460

	December 31, 2012		
	Attributed to parent company s interest	Non-controlling interests	Total
(i) Changes in the Paraopeba Fixed Income Investment Fund		(116,685)	(116,685)
(ii) Reclassification of balances due to changes in subsidiaries ownership as per note 3.1	(1,953)	1,953	
(iii) Other changes		43,978	43,978
Effects of interest changes in subsidiaries	(1,953)	(70,754)	(72,707)

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(i) Changes in the Paraopeba Fixed Income Investment Fund (Note 3.1), which is managed by JP Morgan, due to changes in the amount invested by each subsidiary of the Company in comparison with the amount of investments held by non-consolidated entities (related parties); (ii) increases and decreases in the amounts attributed to the parent company and in the amounts attributed to non-controlling interests due to changes in subsidiaries ownership not resulting in a change of control; (iii) Other changes in subsidiaries without losing control, which may include among others, capital increases, other acquisitions of interests and dilutions of any nature.

f) Other reserves - Include: gains and losses on available for sale securities, gains and losses on net investment hedge, gains and losses on derivatives accounted as cash flow hedge, cumulative translation adjustments and expenses recorded for stock option plans.

g) Dividends and interest on capital - the shareholders have a right to receive a minimum annual mandatory dividend equal to 30% of adjusted net income as determined in its corporate records prepared in accordance with the accounting practices adopted in Brazil. The Company calculated interest on shareholders´ capital for the year in accordance with the terms established by Law 9249/95. The corresponding amount was recorded as a financial expense for tax purposes. For presentation purposes, this amount was recorded as dividends and did not affect net income. The related tax benefit from the reduction in income tax and social contribution on net income was R$ 69,547 for 2014 (R$ 109,942 in 2013).

The interest on capital and dividends credited during the year totaled R$ 426,141, corresponding to the total due to the minimum annual mandatory dividend of 30% of adjusted net income, pursuant to bylaws, as follows:

	2014	**2013**	**2012**
Net income	1,402,873	1,583,731	1,425,633
Constitution of legal reserve	(70,144)	(79,187)	(71,282)
Constitution of the tax incentives reserve	(51,126)	(69,514)	(62,426)
Net income before dividends and interest on capital	1,281,603	1,435,030	1,291,925
Dividends and interest on capital	(426,141)	(476,667)	(408,193)
Net income before constitution of investments and working capital reserve	855,462	958,363	883,732
Constitution of investments and working capital reserve	(855,462)	(958,363)	(883,732)

						Dividends and interest on capital in the years		
			Outstanding shares					
Period	**Nature**	**R$ /share**	**(thousands)**	**Credit**	**Payment**	**2014**	**2013**	**2012**
1st quarter	Interest	0.07	1,704,523	5/21/2014	5/30/2014	(119,331)		
1st quarter	Dividends						(34,013)	(101,944)
2nd quarter	Dividends	0.06	1,704,454	7/25/2014	8/21/2014		(119,047)	
2nd quarter	Interest					(102,268)		(153,221)
3rd quarter	Interest	0.05	1,704,469	11/17/2014	11/27/2014	(85,224)	(204,312)	(119,018)
4th quarter	Dividends	0.07	1,704,544	3/16/2015	3/26/2015	(119,318)	(119,295)	(34,010)
						(426,141)	(476,667)	(408,193)
Credit per share (R$)						0.25	0.28	0.24

The remaining income for the year was transferred to a statutory reserve for investments and working capital in accordance with Company by-laws.

NOTE 22 EARNINGS PER SHARE (EPS)

In compliance with IAS 33, Earnings per Share, the following tables reconcile net income to the amounts used to calculate basic and diluted earnings per share.

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Basic

	2014		
	Common	Preferred	Total
	(in thousands, except share and per share data)		
Basic numerator			
Allocated net income available to common and preferred shareholders	470,746	932,127	1,402,873
Basic denominator			
Weighted-average outstanding shares, after deducting the average tresuary shares	571,929,945	1,132,483,383	
Earnings per share (in R$) Basic	0.82	0.82	

	2013		
	Common	Preferred	Total
	(in thousands, except share and per share data)		
Basic numerator			
Allocated net income available to common and preferred shareholders	532,464	1,051,267	1,583,731
Basic denominator			
Weighted-average outstanding shares, after deducting the average tresuary shares	571,929,945	1,129,184,775	
Earnings per share (in R$) Basic	0.93	0.93	

	2012		
	Common	Preferred	Total
	(in thousands, except share and per share data)		
Basic numerator			
Allocated net income available to common and preferred shareholders	478,969	946,664	1,425,633
Basic denominator			
Weighted-average outstanding shares, after deducting the average tresuary shares	571,929,945	1,130,398,618	
Earnings per share (in R$) Basic	0.84	0.84	

Diluted

	2014	2013	2012
Diluted numerator			
Allocated net income available to Common and Preferred shareholders			
Net income allocated to preferred shareholders	932,127	1,051,267	946,664
Add:			

Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	714	1,851	394
	932,841	1,053,118	947,058
Net income allocated to common shareholders	470,746	532,464	478,969
Less:			
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	(714)	(1,851)	(394)
	470,032	530,613	478,575
Diluted denominator			
Weighted - average number of shares outstanding			
Common Shares	571,929,945	571,929,945	571,929,945
Preferred Shares			
Weighted-average number of preferred shares outstanding	1,132,483,383	1,129,184,775	1,130,398,618
Potential increase in number of preferred shares outstanding in respect of stock option plan	2,588,297	5,937,260	1,399,856
Total	1,135,071,681	1,135,122,035	1,131,798,474
Earnings per share Diluted (Common and Preferred Shares)	0.82	0.93	0.84

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The Company had no instruments excluded from the calculation of diluted EPS because they were antidilutive.

NOTE 23 NET SALES REVENUE

The net sales revenues for the year are composed of:

	2014	2013	2012
Gross sales	47,866,687	45,716,601	43,055,916
Taxes on sales	(4,098,426)	(4,179,096)	(3,555,392)
Discounts	(1,221,922)	(1,674,468)	(1,518,856)
Net sales	42,546,339	39,863,037	37,981,668

NOTE 24 - LONG-TERM INCENTIVE PLANS

a) Stock Options Plan:

	2014		2013		2012	
	Number of shares	Average exercise price in the year R$	Number of shares	Average exercise price in the year R$	Number of shares	Average exercise price in the year R$
Available at beginning of the year	2,793,495	19.44	13,481,041	17.34	12,195,495	17.74
Options Granted			1,947,564	18.58	2,277,080	14.42
Options Exercised	(52,340)	17.34	(2,388,004)	9.60	(535,096)	10.85
Options Forfeited	(292,182)	19.47	(279,004)	20.22	(456,438)	21.25
Converted to Restricted Shares			(9,968,102)	18.96		
Available at the end of the year	2,448,973	19.53	2,793,495	19.44	13,481,041	17.34

The average market price of the share in the year ended December 31, 2014 was R$ 13.31 (R$ 16.01 and R$ 17.85 in the years ended December 31, 2013 and 2012, respectively).

As of December 31, 2014 the Company has a total of 13,417,683 preferred shares in treasury. These shares may be used for serving this plan. The exercise of the options before the grace period end was due to retirement or death.

Exercise price	Quantity

		Average period of grace (in years)	Average exercise price	Number exercisable at December 31, 2014*
			R$	
R$ 11.55	80,742	4.2	10.24	80,742
R$ 36.23	12,581	2.2	32.12	12,581
R$ 52.70	8,953	3.2	46.72	8,953
R$ 10,58 a R$ 29,12	2,346,697	5.0	19.68	74,615
	2,448,973			176,891

*The total of options vested that are exercisable on December 31, 2014 is 176,891 (252,372 and 5,416,875 on December 31, 2013 and 2012).

During the years ended December 31, 2014, 2013 and 2012, the long-term incentive plans costs recognized in income for all equity settled awards were R$ 36,209, R$ 30,945 and R$ 29,623, respectively.

The Company recognizes costs of employee compensation based on the fair value of the options granted, considering their fair value on the date of granting. The Company uses the Black-Scholes model for determining the fair value of the options. There were no options granted for this plan in 2014.

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b) Restricted Shares and Performance Shares Summary:

Balance on January 01, 2012	**678,813**
Granted	407,232
Forfeited/Canceled	(18,046)
Exercised	(43,123)
Balance on December 31, 2012	**1,024,876**
Granted	597,472
Addition due to the Convertion from SARs	2,898,828
Addition due to the Convertion from Stock Options	5,234,336
Forfeited	(652,956)
Exercised	(1,731,341)
Balance on December 31, 2013	**7,371,215**
Granted	3,981,219
Forfeited	(739,017)
Exercised	(527,183)
Balance on December 31, 2014	**10,086,234**

c) Other Plans North America

In February 2010, the Board of Directors approved the adoption of the Equity Incentive Plan (the EIP). Awards under the EIP may take the form of stock options, SARs, deferred share units (DSUs), restricted share units (RSUs), performance share units (PSUs), restricted stock, and/or other share-based awards. Except for stock options, which must be settled in common shares, awards may be settled in cash or common shares as determined by the Company at the time of grant.

For the portion of any award which is payable in options or SARs, the exercise price of the options or SARs will be no less than the fair market value of a common share on the date of the award. The vesting period for all awards (including RSUs, DSUs and PSUs) is determined by the Company at the time of grant. Options and SARs have a maximum term of 10 years.

In 2014, an award of approximately US$ 11.7 million (R$ 31.1 million) was granted to participants under the EIP. The Company issued 767,027 RSUs, and 1,150,541 PSUs under this plan. This award has being accrued over the vesting period of 5 years.

In 2013, an award of approximately US$ 11.9 million (R$ 31.6 million) was granted to participants under the EIP. The Company issued 2,423,379 equity-settled SARs, 198,552 RSUs, and 398,920 PSUs under this plan. This award has being accrued over the vesting period of 5 years.

In 2012, an award of approximately US$ 11.6 million (R$ 23.7 million) was granted to participants under the EIP. The Company issued 1,672,473 equity-settled SARs, 133,990 RSUs, and 273,242 PSUs under this plan. This award is being accrued over the vesting period of 5 years.

In connection with the adoption of the EIP, the Company terminated the existing long-term incentive plan (LTIP), and no further awards will be granted under the LTIP. All outstanding awards under the LTIP will remain outstanding until either exercised, forfeited or they expire. On December 31, 2014, there were 768,757 SARs and 102,276 stock options outstanding under the LTIP. These awards have been accrued over the vesting period of 4 years.

As of December 31, 2014 and December 31, 2013, the outstanding liability for share-based payment transactions included in other non-current liabilities of the subsidiaries in North America was US$ 370 thousand (R$ 983 thousand) and US$ 1.2 million (R$ 2.8 million), respectively. The total intrinsic value of share-based liabilities for which the participant s right to cash had vested was US$ 0 (R$ 0) and US$ 1.3 million (R$ 3.0 million) as of December 31, 2014 and December 31, 2013, respectively.

NOTE 25 SEGMENT REPORTING

From 2014 on, the iron ore operation, which was previously presented into the Brazil segment, started to be presented separately as a new segment called Iron Ore . This change is due to the evolution of the iron ore project throughout 2013, which led to the Company s decision to segregate this operation due to its significance.

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For presentation purposes, the comparative information has been modified, regarding the information originally disclosed, to reflect the changes approved by the Gerdau Executive Committee, according to the criteria established by IFRS 8.

	Business Segments 2014						
	Brazil Operation	Mining	North America Operation	Latin America Operation	Special Steels Operation	Eliminations and Adjustments	Consolidated
Net sales	14,294,413	944,778	14,048,572	5,670,062	8,643,887	(1,055,373)	42,546,339
Cost of sales	(11,640,723)	(788,409)	(13,092,669)	(5,022,942)	(7,921,925)	1,060,340	(37,406,328)
Gross profit	2,653,690	156,369	955,903	647,120	721,962	4,967	5,140,011
Selling, general and administrative expenses	(883,406)	(39,194)	(719,049)	(366,800)	(378,038)	(341,460)	(2,727,947)
Other operating income (expenses)	20,117		11,904	(25,021)	28,743	52,150	87,893
Impairment of assets				(339,374)			(339,374)
Gains in joint ventures operations			636,528				636,528
Equity in earnings of unconsolidated companies			71,562	6,549		23,764	101,875
Operational (Loss) income before financial income (expenses) and taxes	1,790,401	117,175	956,848	(77,526)	372,667	(260,579)	2,898,986
Financial result, net	(498,760)	(37,784)	(153,602)	(73,259)	(180,913)	(616,684)	(1,561,002)
Income before taxes	1,291,641	79,391	803,246	(150,785)	191,754	(877,263)	1,337,984
Income and social contribution taxes	(332,595)	(24,555)	(111,957)	(11,226)	(68,675)	699,397	150,389
Net income	959,046	54,836	691,289	(162,011)	123,079	(177,866)	1,488,373
Supplemental information:							
Net sales between segments	408,089	426,218	88,356	511	132,199		1,055,373
Operational (Loss) income before financial income (expenses) and taxes	1,790,401	117,175	956,848	(77,526)	372,667	(260,579)	2,898,986
Depreciation/amortization	863,295	43,479	567,438	208,065	545,119		2,227,396
Impairment of assets				339,374			339,374
Gains in joint ventures operations			(636,528)				(636,528)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	2,653,696	160,654	887,758	469,913	917,786	(260,579)	4,829,228
Investments in associates and jointly-controlled entities			40,155	1,228,435	1,580	124,213	1,394,383
Total assets	20,944,699	1,122,652	18,384,416	7,848,503	15,400,775	(658,715)	63,042,330
Total liabilities	10,907,833	136,246	4,908,201	2,232,012	7,382,045	4,221,459	29,787,796

	Business Segments 2013						
	Brazil Operation	Mining	North America Operation	Latin America Operation	Special Steels Operation	Eliminations and Adjustments	Consolidated
Net sales	14,837,088	704,265	12,562,179	5,366,383	8,023,058	(1,629,936)	39,863,037
Cost of sales	(11,883,641)	(440,991)	(11,918,596)	(4,800,927)	(7,308,700)	1,624,395	(34,728,460)
Gross profit	2,953,447	263,274	643,583	565,456	714,358	(5,541)	5,134,577
Selling, general and administrative expenses	(901,360)	(38,242)	(640,487)	(313,591)	(327,569)	(390,627)	(2,611,876)
Other operating income (expenses)	129,370		9,525	1,067	17,623	20,136	177,721

Equity in earnings of unconsolidated companies			46,800	(11,647)		18,848	54,001
Operational (Loss) income before financial income (expenses) and taxes	2,181,457	225,032	59,421	241,285	404,412	(357,184)	2,754,423
Financial result, net	(133,629)	(874)	(185,200)	(76,974)	(130,250)	(774,850)	(1,301,777)
Income before taxes	2,047,828	224,158	(125,779)	164,311	274,162	(1,132,034)	1,452,646
Income and social contribution taxes	(510,741)	(56,037)	144,342	(60,352)	(117,447)	841,291	241,056
Net income	1,537,087	168,121	18,563	103,959	156,715	(290,743)	1,693,702
Supplemental information:							
Net sales between segments	891,218	430,320	154,178	853	153,367		1,629,936
Operational (Loss) income before financial income (expenses) and taxes	2,181,457	225,032	59,421	241,285	404,412	(357,184)	2,754,423
Depreciation/amortization	807,357	14,864	515,413	186,975	504,898		2,029,507
Earnings before interest, taxes, depreciation and amortization (EBITDA)	2,988,814	239,896	574,834	428,260	909,310	(357,184)	4,783,930
Investments in associates and jointly-controlled entities			326,765	1,129,060	1,288	132,918	1,590,031
Total assets	19,276,428	1,068,799	16,909,618	7,927,174	14,830,092	(1,797,071)	58,215,040
Total liabilities	9,396,996	126,651	4,547,307	2,123,608	6,912,854	3,086,867	26,194,283

				Business Segments 2012			
	Brazil Operation	**Mining**	**North America Operation**	**Latin America Operation**	**Special Steels Operation**	**Eliminations and Adjustments**	**Consolidated**
Net sales	14,028,326	490,588	12,449,705	4,964,436	7,388,667	(1,340,054)	37,981,668
Cost of sales	(11,799,733)	(249,495)	(11,453,120)	(4,635,666)	(6,420,824)	1,324,736	(33,234,102)
Gross profit	2,228,593	241,093	996,585	328,770	967,843	(15,318)	4,747,566
Selling, general and administrative expenses	(897,573)	(24,443)	(581,772)	(272,277)	(317,991)	(377,619)	(2,471,675)
Other operating income (expenses)	80,465		6,798	(2,162)	4,932	(26,072)	63,961
Equity in earnings of unconsolidated companies			28,757	(28,660)	(17,102)	25,358	8,353
Operational (Loss) income before financial income (expenses) and taxes	1,411,485	216,650	450,368	25,671	637,682	(393,651)	2,348,205
Financial result, net	(124,087)	(937)	(106,485)	(44,279)	(99,835)	(413,120)	(788,743)
Income before taxes	1,287,398	215,713	343,883	(18,608)	537,847	(806,771)	1,559,462
Income and social contribution taxes	(326,514)	(53,928)	(20,098)	(23,482)	(175,528)	536,328	(63,222)
Net income	960,884	161,785	323,785	(42,090)	362,319	(270,443)	1,496,240
Supplemental information:							
Net sales between segments	600,350	420,586	200,483	2,629	117,448		1,341,496
Operational (Loss) income before financial income (expenses) and taxes	1,411,485	216,650	450,368	25,671	637,682	(393,651)	2,348,205
Depreciation/amortization	749,650	17,023	471,781	154,211	434,834		1,827,499
Earnings before interest, taxes, depreciation and amortization (EBITDA)	2,161,135	233,673	922,149	179,882	1,072,516	(393,651)	4,175,704
Investments in associates and jointly-controlled entities			278,211	907,476	1,288	238,630	1,425,605
Total assets	16,794,517	715,544	15,602,047	7,304,130	12,878,312	(201,392)	53,093,158
Total liabilities	6,770,281	61,548	4,945,152	3,876,805	6,742,720	1,898,735	24,295,241

The main products sold in each segment are:

Brazil Operations: rebar, bars, shapes, drawn products, billets, blooms, slabs, wire rod and structural shapes.

North America Operations: rebar, bars, wire rod, light and heavy structural shapes.

Latin America Operations: rebar, bars and drawn products.

Special Steel Operations: stainless steel, round, square and flat bars, wire rod.

Iron ore Operations: iron ore

The column of eliminations and adjustments includes the elimination of sales between segments in the context of the Consolidated Financial Statements.

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The Company s geographic information with revenues classified according to the geographical region where the products were shipped is as follows:

	Brazil 2014	Latin America (1) 2014	North America (2) 2014	Europe/Asia 2014	Geographic Area Consolidated 2014
Net sales	16,428,472	6,063,220	17,250,898	2,803,749	42,546,339
Total assets	24,503,901	8,409,583	26,288,644	3,840,202	63,042,330

	Brazil 2013	Latin America (1) 2013	North America (2) 2013	Europe/Asia 2013	Consolidated 2013
Net sales	16,134,963	5,989,926	15,416,686	2,321,462	39,863,037
Total assets	22,036,970	8,478,180	23,843,862	3,856,028	58,215,040

	Brazil 2012	Latin America (1) 2012	North America (2) 2012	Europe/Asia 2012	Consolidated 2012
Net sales	15,207,817	5,478,956	15,219,140	2,075,755	37,981,668
Total assets	20,988,524	7,304,130	21,569,514	3,230,990	53,093,158

(1) Does not include operations of Brazil

(2) Does not include operations of Mexico

IFRS requires the Company to disclose revenue per product unless the information is not available and the cost to obtain it would be excessive. Management does not consider this information useful for its decision making process, because it would aggregate sales in different markets and in different currencies, subject to the effects of changes in exchange rates. Furthermore, the trends of steel consumption and the price dynamics of each product or group of products in different countries and different markets within these countries are poorly correlated and, as a result, the information would not be useful and would not serve to conclude about historical trends. Considering this scenario and considering that the information of revenue by product is not maintained by the Company on a consolidated basis and the cost to obtain the revenue per product information would be excessive compared to the benefits of the information, the Company does not present revenue by product.

NOTE 26 INSURANCE

The subsidiaries have insurance coverage determined by management with the assistance of specialists advice, taking into consideration the nature and the level of risk, in amounts that cover significant losses on their assets and/or liabilities. The main types of insurance are as follows:

Type	Scope	2014	2013
Equity	Inventories and property, plant and equipment items are insured against fire, electrical damage, explosion, machine breakage and overflow (leakage of material in fusion state).	48,291,077	41,860,131

Business Interruption	Net income plus fixed expenses	9,694,293	8,681,559
Civil Liability	Industrial operations	467,887	416,451

NOTE 27 IMPAIRMENT OF ASSETS

To determine the recoverable amount of each business segment, the Company uses the discounted cash flow method, using as basis, financial and economic projections for each segment. The projections are prepared by taking into consideration observed changes in the economic scenario in the market where the Company operates, as well as assumptions with respect to future results and the historical profitability of each segment.

27.1 Goodwill impairment test

The test of impairment of goodwill allocated to each operating segment is performed annually in December or whenever changes in events or circumstances indicate that the goodwill may be impaired.

The Company has five operating segments, which represent the lowest level in which goodwill is monitored by the Company. The composition of goodwill by segment is presented in Note 11. The Iron Ore segment is not part of the goodwill impairment test, due to the fact of not having allocated goodwill.

In December 2014, the Company performed an impairment test for goodwill and no impairment loss was identified for the year. In some sensitivity analysis, the Company has identified higher risks for future impairment recognition, in case of further deterioration of economic basement.

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The period for projecting the cash flows was five years. The assumptions used to determine the value in use based on the discounted cash flow method include: projected cash flows based on Management estimates for future cash flows, exchange rates, discount rates and growth rates on perpetuity. The perpetuity value was calculated considering stable operating margins, levels of working capital and investments. The perpetuity growth rate considered was 3% for the Brazil, Latin America, Special Steel and North America segments.

The pre-tax discount rates used were determined taking into consideration market information available on the date of performing the impairment test. The Company adopted distinct rates for each business segment tested with the purpose of reflecting the differences among the markets in which each segment operates, as well as the risks associated to each of them. The pre-tax discount rates used were 11.4% for the North America segment (11.8% in December 2013), 12.5% for the Special Steel segment (12.5% in December 2013), 11.9% for the Latin America segment (13.3% in December 2013) and 13.9% for the Brazil segment (14.5% in December 2013).

Considering the recoverable amount determined through the discounted cash flows, the recoverable amount exceeded the carrying amount by R$ 1,699 million for the North America segment (R$ 1,244 million in December 2013), R$ 1,591 million for the Special Steel segment (R$ 1,661 million in December 2013), R$ 668 million for the Latin America segment (R$ 431 million in December 2013), and R$ 3,103 million for the Brazil segment (R$ 10.225 million in December 2013).

Due to the potential impact in the discounted cash flows of discount rates and perpetuity growth rate, the Company performed a sensitivity analysis of changes in those assumptions. A 0.5% increase in the discount rate to discount the cash flow of each segment would result in recoverable amounts that would exceed the book value by R$ 394 million for the North America segment (R$ 94 million in December 2013), R$ 785 million for the Special Steel segment (R$ 942 million in December 2013), R$ 2,073 million for the Brazil segment (R$ 8,826 million in December 2013) and R$ 186 million for Latin America segment (R$ 7 million in December 2013). On the other hand, a 0.5% decrease in the perpetuity growth rate used in the discounted cash flow for each segment would result in recoverable amounts that would exceed the book value by R$ 678 million for the North America segment (R$ 361 million in December 2013), R$ 976 million for the Special Steel segment (R$ 1,127 million in December 2013), R$ 2,365 million for the Brazil segment (R$ 9,232 million in December 2013) and R$ 310 million for Latin America segment (R$ 124 million in December 2013).

It is important to mention that events or significant changes in the expectations may result in significant impairment of goodwill. As of December 31, 2014, a combination of the sensitivity analysis described in the paragraphs above would result in a recoverable amount lower than the book value by R$ 458 million for the North America segment (R$ 651 million in December 2013) and R$ 122 million for the Latin America segment (R$ 259 million in December 2013). As of December 31, 2014, a combination of the sensitivity analysis described in the paragraphs above would result in a recoverable amount that would exceed the book value by R$ 1,436 million in the Brazil segment (R$ 8,077 million in December 2013) and R$ 262 million for the Special Steel segment (R$ 484 million in December 2013).

The Company will maintain over the next year its constant monitoring of the steel market in order to identify any deterioration, significant drop in demand from steel consuming sectors (notably automotive and construction), stoppage of industrial plants or activities relevant changes in the economy or financial market that result in increased perception of risk or reduction of liquidity and refinancing capacity. Although the projections made by the Company provide a more challenging scenario than that in recent years, the events mentioned above, if manifested in a greater intensity than that anticipated in the assumptions made by management, may lead the Company to revise its projections of value in use and eventually result in impairment losses.

27.2 Other assets Impairment test

In December 2014, the Company identified impairment losses for assets in the Latin America segment in the amount of R$ 339,374, due to the lack of future use expectation for those assets.

The Company believes that the scenarios used in the impairment test, performed in December 2014 are the best estimate for the results and future cash generation for each segment, despite the fact that future uncertainty in the markets remain. The Company will continue to monitor the results in 2015, which may indicate whether the future projections used were reasonable.

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NOTE 28 EXPENSES BY NATURE

The Company opted to present its Consolidated Income Statement by function. As required by IAS 1, the expenses classified by nature are as follows:

	2014	2013	2012
Depreciation and amortization	(2,227,396)	(2,029,507)	(1,827,499)
Labor expenses	(6,444,454)	(6,077,868)	(5,607,439)
Raw material and consumption material	(26,472,335)	(24,545,626)	(23,888,927)
Credit Recovery	141,336	329,084	
Freight	(2,262,143)	(2,075,459)	(1,910,237)
Impairment of assets	(339,374)		
Gains in joint ventures operations	636,528		
Other expenses/income, net	(2,781,390)	(2,763,239)	(2,407,714)
	(39,749,228)	(37,162,615)	(35,641,816)
Classified as:			
Cost of sales	(37,406,328)	(34,728,460)	(33,234,102)
Selling expenses	(691,021)	(658,862)	(587,369)
General and administrative expenses	(2,036,926)	(1,953,014)	(1,884,306)
Other operating income	238,435	318,256	244,414
Other operating expenses	(150,542)	(140,535)	(180,453)
Impairment of assets	(339,374)		
Gains in joint ventures operations	636,528		
	(39,749,228)	(37,162,615)	(35,641,816)

NOTE 29 FINANCIAL INCOME

	2014	2013	2012
Income from short-term investments	144,723	135,040	155,638
Monetary variation on credit recovery		41,053	
Interest income and other financial income	131,526	116,817	160,973
Financial Income	276,249	292,910	316,611
Interest on debt	(1,178,034)	(901,273)	(811,416)
Monetary variation and other financial expenses	(219,341)	(152,112)	(141,263)
Financial Expenses	(1,397,375)	(1,053,385)	(952,679)
Exchange Variation, net	(476,367)	(544,156)	(134,128)
Gains and losses on financial instruments, net	36,491	2,854	(18,547)
Financial result, net	**(1,561,002)**	**(1,301,777)**	**(788,743)**

NOTE 30 SUBSEQUENT EVENTS

On January 19, 2015, the Board of Directors authorized the Company to acquire shares of its own issuance, within a period of up to 3 months from the date of the authorization, respecting the limit of 30,000,000 preferred shares GGBR4) or American Depositary Receipts ADRs (GGB). This authorization has the purpose to attend the Long-Term Incentive Plan of the Company and its subsidiaries, keeping in Treasury, cancelling or further selling in the market. The acquisition will be supported by retained earnings, being the Board responsible to define the number of shares and the opportunity of each operation.

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